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(19431)

FURTHER CORRESPONDENCE

RESPECTING

PERSIA

PART 7

January to December 1953

TABLE OF CONTENTS

No. and Name	Date	SUBJECT	Page
Chapter I—General Correspondence			
1 Sir C. Steel .. (Washington) No. 2130 Saving (Telegraphic)	1952 Dec. 31	Increase in currency issue by the Bank Melli ..	1
2 United States Embassy	1953 Jan. 6	Telegram from the United States Ambassador, Tehran, to the United States State Department, giving draft for a proposed Persian communiqué ..	1
3 Tehran ..	Jan. 7	Broadcast by Tehran Radio on December 23, 1952 .. Law restricting the entry of foreign nationals.	4
4	Jan. 9	Correspondence between President Eisenhower and Dr. Musaddiq Correspondence covers periods January 9 and 10 and May 28 and July 3.	4
5 Foreign Office ..	Jan. 14	Agreement between Iran and the United Kingdom for the settlement of claims between the Government of Iran and the Anglo-Iranian Oil Company ..	7
6 Tehran ..	Jan. 15	Telegram from the United States Ambassador at Tehran to the State Department conveying Dr. Musaddiq's reply to the "package" proposals handed to him on January 15, 1953 ..	10
7 United States Embassy	Jan. 15	Procedure to be followed with respect to the initialling of the draft Agreements connected with the Iranian Oil problem ..	12
8 Sir William Fraser .. Anglo-Iranian Oil Company.	Jan. 15	Agreement by the Anglo-Iranian Oil Company to the new approach to Dr. Musaddiq ..	12
9 Foreign Office ..	Jan. 17	Anglo-American proposals for a settlement of the oil dispute	13
10 Tehran ..	Jan. 17	Telegram from the United States Ambassador at Tehran to the State Department reporting on his talk with Dr. Musaddiq on January 15, 1953 ..	14
11 To Sir V. Mallet No. 31 (Telegraphic) Sir V. Mallet No. 25 (Telegraphic)	Jan. 17	Confirmation by the State Department of a report of a deal between Italy and Poland and that the s.s. <i>Miriella</i> was loading oil at a Persian port ..	17
12 To Sir R. Makins No. 302 (Telegraphic)	Jan. 18		
12 To Sir R. Makins No. 302 (Telegraphic)	Jan. 23	Rejection by Dr. Musaddiq of the Anglo-American proposals of January 15; counter proposals of Dr. Musaddiq ..	18
13 Mr. Fry .. No. 15	Jan. 26	Summary of Events for 1952 ..	20
14 Tehran ..	Jan. 28	Telegram from the United States Ambassador at Tehran to the State Department reporting his conversation with Dr. Musaddiq on January 28, 1953 ..	25
15 Sir R. Makins .. No. 75 Saving (Telegraphic)	Jan. 29	Tudeh Party activity ..	27
16 To Sir R. Makins .. (Washington)	Jan. 31	Anglo-American proposals of January 15: Change of position by Dr. Musaddiq ..	28
17 Chancery, Moscow ..	Feb. 5	Caspian Fisheries: Liquidation of the Soviet-Iranian Fishery Company "Iranryba" ..	29

TABLE OF CONTENTS

No. and Name	Date	SUBJECT	Page
18 Sir R. Makins .. No. 288 (Telegraphic)	1953 Feb. 10	United States views on two alternative moves ..	31
19 United States Embassy London	Feb. 15	Memorandum communicated by the United States Embassy, London, on February 15, 1953, giving an account of a meeting between the United States Ambassador at Tehran and Dr. Musaddiq on February 14 ..	32
20 To Sir R. Makins .. No. 716 and 717 (Telegraphic) Sir R. Makins .. No. 345 (Telegraphic) To Sir R. Makins .. No. 740 (Telegraphic)	Feb. 18	Consideration by the United Kingdom of American proposals; threat by Dr. Musaddiq to sell Persian oil cheaply; American argument that our failure to reach an agreement will undermine the oil price structure; our proposals accepted by the Americans as a reasonable and final position ..	34
21 Foreign Office ..	Feb. 20	Refusal of Dr. Musaddiq to face up to our proposals ..	37
22 United States Embassy, London	Feb. 21	Telegram from the United States Ambassador at Tehran giving a full report of his conversation with Dr. Musaddiq on February 20 ..	38
23 United States Embassy, London	Feb. 26	Compensation Agreement: Text of draft Agreements given to Dr. Musaddiq by the United States Ambassador on February 20 ..	39
24 Foreign Office ..	Mar. 3	Differences between Dr. Musaddiq and Kashani ..	42
25 United States Department of State	Mar. 7	Decision by the United Kingdom to stand by the proposals made to Dr. Musaddiq on February 20, 1953; proposals considered by the Americans to be reasonable and fair ..	43
26 To Sir R. Makins .. (Washington)	Mar. 7	American concern over the complaints of Dr. Musaddiq ..	44
27 Sir R. Makins .. No. 207 Saving (Telegraphic)	Mar. 9	Interview between Mr. Henderson and Dr. Musaddiq: Request by Dr. Musaddiq for American aid ..	44
28 Sir V. Mallet .. No. 146 (Telegraphic)	Mar. 10	Desire by Italian business men for the resumption of Persian oil purchases ..	46
29 Mr. Mott-Radcliffe .. House of Commons	Mar. 18	Request to the Secretary of State to make a statement regarding the action brought by the Anglo-Iranian Oil Company in respect of Persian oil carried by the tanker <i>Miriella</i> ..	47
30 United States Embassy, London	Mar. 19	Notes of a telegram from the United States Ambassador at Tehran reporting a conversation with Dr. Musaddiq on March 18 about United States aid to Persia ..	48
31 Sir R. Makins .. No. 708 (Telegraphic)	April 2	Rejection by the United Kingdom of a lump sum settlement ..	48
32 United States Embassy, London	April 7	Notes of a telegram from the United States Ambassador at Tehran dated April 4, reporting a conversation with Dr. Musaddiq on April 4 ..	49
33 To Sir E. Dening .. (Tokyo) No. 451 (Telegraphic)	April 11	Reported Japanese barter deal with the Persians ..	49
34 Sir V. Mallet .. No. 224 (Telegraphic)	April 12	Italian policy towards the oil dispute ..	50

TABLE OF CONTENTS

No. and Name	Date	SUBJECT	Page
35 Sir E. Dening No. 408 (Telegraphic)	1953 April 13	Japanese purchase of Persian oil	50
36 To Sir V. Mallet (Rome) No. 150 Saving (Telegraphic)	April 22	Compensation to the Anglo-Iranian Oil Company	51
37 To Sir R. Makins No. 482	April 22	Persian oil and the world situation The risks of sales of cheap Persian oil ; the scope and consequent effects of such sales ; factors influencing the present world oil situation ; possible demand for Persian oil.	52
38 Sir Gladwyn Jebb No. 330 (Telegraphic)	April 22	American oil companies and Anglo-Iranian's Persian interests	57
39 To Sir Oliver Harvey (Paris) No. 431 (Telegraphic)	April 23	United States companies and Persian oil	57
Sir Oliver Harvey No. 151 (Telegraphic)	April 24	58
To Sir R. Makins (Washington) No. 1984 (Telegraphic)	May 4	58
40 Sir E. Dening No. 463 (Telegraphic)	April 25	<i>Nissho Maru</i> case : Japanese Government to discourage the purchase of Persian oil	58
41 Department of State, Washington	April 29	United States support for the United Kingdom representations to the Japanese Government regarding the purchase of oil from Persia	58
42 Mr. R. A. Butler (Treasury)	May 6	Exchange of messages between the Chancellor of the Exchequer and the Secretary of the United States Treasury ..	59
Hon. G. M. Humphrey (U.S. Treasury)	May 18	59
43 Sir R. Makins No. 995 (Telegraphic)	May 8	President Eisenhower as arbiter : Suggestion by Dr. Musaddiq	60
To Sir R. Makins (Washington) No. 2133 (Telegraphic)	May 16	60
44 To Sir R. Makins (Washington) No. 1656 Saving (Telegraphic)	May 11	Report on the present political situation in Iran prepared by the United States Ambassador at Tehran on May 8 ..	61
45 Sir E. Dening No. 527 (Telegraphic)	May 13	Text of the Japanese Government's aide-mémoire regarding the purchase by Japanese firms of Persian oil	62
46 To Sir V. Mallet No. 178	May 16	Dr. Musaddiq's suggestions for oil negotiations ; record of a conversation with the Italian Ambassador on May 15 ; Sir Pierson Dixon outlines the United Kingdom point of view	62
47 To Sir R. Makins (Washington) No. 1936 Saving (Telegraphic)	June 8	Telegram from the United States Ambassador at Tehran of June 2 reporting his conversation with Dr. Musaddiq on May 31 ..	63
48 United States Embassy, London	June 10	Address broadcast by Dr. Musaddiq on March 20, 1953 ..	64

TABLE OF CONTENTS

No. and Name	Date	SUBJECT	Page
49 Sir A. Gascoigne No. 121E	1953 June 18	Soviet-Iranian trade agreement ..	72
50 To Sir R. Makins No. 2656 (Telegraphic)	July 2	Decree by the Persian Government requiring all ships calling at Persian Gulf ports to refuel there or to purchase sufficient oil to cover the distance sailed in Persian waters ..	72
51 Sir R. Makins No. 1443 (Telegraphic) No. 1452 (Telegraphic)	July 9	Publication of correspondence between President Eisenhower and Dr. Musaddiq ..	73
52 To Sir V. Mallet No. 210 Saving (Telegraphic)	July 13	Italy and Persian oil—barter deals .. Record of a conversation with Signor Corrias on July 9.	73
53 Sir N. Roberts To Sir N. Roberts (Tokyo)	July 17 Aug. 15	Japan and Persian oil : Further transactions involving the importation of Persian oil not to have the approval of the Japanese Government ..	74
54 Washington ..	July 30	Tudeh Party activities .. Message from the Department of State for the press.	75
55 To Sir R. Makins (Washington) No. 3072 (Telegraphic) Sir N. Butler No. 172 (Telegraphic) To Copenhagen No. 129 Saving (Telegraphic)	July 31	Compulsory bunkers at Abadan .. Protests by a number of Western nations.	75
56 To Sir R. Makins (Washington) No. 3268 (Telegraphic) Sir R. Makins No. 1828 (Telegraphic) To Sir R. Makins (Washington) No. 3342 (Telegraphic)	Aug. 23 Aug. 25 Aug. 28	Political situation ..	76
57 Washington ..	Aug. 27	United States aid to Persia : Exchange of letters between General Zahedi and President Eisenhower ..	78
58 United States Embassy, London Sir R. Makins No. 1902 (Telegraphic) No. 1917 (Telegraphic)	Sept. 1 Sept. 3 Sept. 4	United States assistance for Persia ..	79
59 United States Embassy, London	Sept. 2	Memorandum on Soviet-Iranian relations ..	80
60 Sir R. Makins No. 1924 (Telegraphic) To Sir R. Makins (Washington) No. 3479 (Telegraphic) Nos. 3530 and 3531 (Telegraphic) Sir R. Makins Nos. 1961 and 1962 (Telegraphic)	Sept. 4 Sept. 5 Sept. 10 Sept. 11	Meetings between the United States Government and the United States oil companies .. Reported American desire for the formation of an all-American company to buy out the Anglo-Iranian ; United Kingdom proposals for a settlement.	81

TABLE OF CONTENTS

No. or Name	Date	SUBJECT	Page
61 To Sir R. Makins (Washington) No. 959	1953 Sept. 14	Conversation between the Acting Secretary of State and the United States Ambassador on September 14 The new Persian Government's wish for the delivery of a consignment of rails which they had ordered in Britain prior to the breaking off of diplomatic relations between the two countries.	85
62 United States Embassy, London	Sept. 18	Conversation between General Zahedi and the United States Ambassador, Mr. L. Henderson	85
63 United States Embassy, London	Sept. 22	Shah's concern at the weakness of the new Persian Government	86
64 Sir Gladwyn Jebb No. 807 (Telegraphic)	Sept. 25	Desire by the Shah to resume negotiations	88
65 Sir R. Makins No. 2030 (Telegraphic)	Sept. 25	American views on the future of the oil dispute	89
66 Sir R. Makins No. 2036 (Telegraphic)	Sept. 26	Proposals for a syndicate to market Persian oil	90
67 Sir R. Makins No. 2067 (Telegraphic) Sir R. Makins No. 804 Saving (Telegraphic)	Sept. 30	Proposals for an interim settlement Proposal that the International Bank should operate the industry for a limited period.	90
68 To Sir R. Makins (Washington) No. 3821 (Telegraphic)	Oct. 3	Report of elections for a new Majlis	92
69 To Sir Gladwyn Jebb (New York) No. 927 (Telegraphic)	Oct. 6	Desire by the Secretary of State for a resumption of diplomatic relations	92
70 To Sir R. Makins (Washington) No. 3872 (Telegraphic)	Oct. 6	Message to Mr. Dulles from the Secretary of State	93
71 Eastern Department	Oct. 8	Message from the Shah to the Swiss Minister : Shah's desire to resume diplomatic relations	93
72 To Sir R. Makins (Washington) No. 3910 (Telegraphic)	Oct. 8	Considerations about an interim settlement	94
73 To Sir C. Scrivener (Berne) No. 232 (Telegraphic)	Oct. 9	Report by the Swiss Minister of a message from the Shah Desire by the Shah to know if we would be in favour of resuming diplomatic relations before beginning oil negotiations.	94
74 Foreign Office	Oct. 13	Resumption of diplomatic relations with Persia	95
75 Mr. Penfield, United States Embassy, London	Oct. 14	Mr. Hoover's visit to Persia : Message from the United States Secretary of State to Mr. Eden	96
76 To Sir P. Scrivener (Berne) Nos. 256 and 257 (Telegraphic)	Oct. 21	House of Commons statement by the Secretary of State Request to the Swiss Minister at Tehran to bring Mr. Eden's statement to the attention of the Shah.	96
77 Swiss Legation, London	Oct. 23	Shah's earnest desire to re-establish normal relations with the United Kingdom	97

TABLE OF CONTENTS

No. and Name	Date	SUBJECT	Page
78 Washington ..	1953 Oct. 28	Substance of a document which Mr. Hoover and Mr. Henderson discussed with the Iranian Prime Minister and Foreign Minister in Tehran on October 21, 1953	97
79 Swiss Legation, London	Oct. 30	Aide-mémoire handed to Mr. Eden by the Swiss Minister Persian suggestion that an expert from the United Kingdom visit Tehran to discuss the basis for a reconciliation.	99
80 To Sir R. Makins No. 4450 (Telegraphic)	Oct. 31	Reply from General Zahedi to the message from the Secretary of State	99
81 Sir R. Makins No. 2369 (Telegraphic)	Nov. 3	Progress of Mr. Hoover's mission to Persia	100
82 Foreign Office ..	Nov. 4	Discussion with Mr. Hoover : Minutes of a meeting held at the Foreign Office on November 4, 1953 Persian Government thought to be thoroughly confused in their thinking, to have no coherent thoughts and to be afraid of public opinion.	100
83 Swiss Legation, London	Nov. 10	Communiqué issued by the Persian Minister for Foreign Affairs on October 31 Persian hope that Mr. Eden's recent speech will open a new chapter in friendly relations between the United Kingdom and Persia.	103
84 To Sir R. Makins No. 3814 Saving (Telegraphic)	Nov. 10	Message from Mr. Hoover to the United States Ambassador in Tehran Message confirms the desire of the United Kingdom to resume diplomatic relations as soon as possible ; main points outlined for an oil settlement.	103
85 United States Embassy, London	Nov. 12	Aide-mémoire communicated by the United States Embassy on November 12 Summary of statements made by the Persian Foreign Minister in connection with the resumption of diplomatic relations.	105
86 Foreign Office ..	Nov. 14	Resumption of diplomatic relations : United Kingdom desire to help the Persian Government in their difficulties..	106
87 Sir Gladwyn Jebb No. 1099 (Telegraphic)	Nov. 15	Resumption of diplomatic relations : Persian proposals	106
88 United States Embassy, London	Nov. 16	Resumption of diplomatic relations : United Kingdom belief that negotiations should be conducted only by properly accredited representatives	106
89 Sir R. Makins No. 2530 (Telegraphic)	Nov. 17	Discussions between Mr. Hoover and the International Bank	107
90 EP 1015/263 ..	Nov. 19	Persia : Quarterly Political Report (July to September 1953) Dr. Musaddiq loses popular support through high-handed behaviour ; attempt to end constitutional government ; failure of military plot ; Musaddiq hesitates to put himself entirely in the hand of the Communists ; royalists succeed in taking power due to lack of support for Musaddiq from Communists and the Army ; considerable support still remains for Musaddiq ; help to new Government readily given by the United States ; policy of the new Government cautious at home and abroad.	107
91 To Sir Gladwyn Jebb No. 1337 (Telegraphic)	Nov. 21	United Kingdom proposal for a joint Anglo-Persian communiqué	111

No. and Name	Date	SUBJECT	Page
92 Foreign Office ..	Nov. 24 1953	Suggested terms for a joint Anglo-Persian communiqué ..	112
93 United States Embassy, London	Nov. 24	Report on the political situation ..	112
94 House of Commons ..	Nov. 25	Parliamentary Question : Mr. Fenner Brockway requests information from the Secretary of State concerning recognition by the United Kingdom of the Persian nationalisation law ..	113
95 Sir R. Makins No. 2583 (Telegraphic)	Nov. 25	International Bank and future oil operations..	114
96 United States Embassy, London	Nov. 30	Comments on Mr. Eden's November 25 statement to Parliament ..	114
97 United States Embassy, London	Nov. 30	Persian moves for a resumption of diplomatic relations ..	115
98 To Sir R. Makins No. 1259	Nov. 30	Conversation between the Secretary of State and the United States Ambassador on November 30, 1953 The Persian Government's idea of sending to Her Majesty's Government a counter-draft of the proposed communiqué about the resumption of diplomatic relations between the two countries; paraphrase of the message from the United States Ambassador in Tehran concerning this: Mr. Eden's initial favourable reaction.	116
99 To Mr. Eden (Bermuda) No. 103 (Telegraphic)	Dec. 3	Persian agreement with our proposed text for a joint communiqué ..	117
100 To Mr. Eden .. (Bermuda) Nos. 113 and 114 (Telegraphic)	Dec. 4	United Kingdom statement on American assistance during the break in Anglo-Persian relations ..	117
Mr. Eden .. (Bermuda) No. 76 (Telegraphic)	Dec. 4		
Sir P. Scrivener No. 396 (Telegraphic)	Dec. 5		
101	Dec. 5	Joint communiqué for resumption of diplomatic relations published by Her Majesty's Government and the Persian Government Desire of Her Majesty's Government to solve oil dispute and to return to normal position of traditional good friendship as soon as possible.	118
102 Tehran	Dec. 11	Resumption of Anglo-Persian diplomatic relations : Report by the Swiss Minister at Tehran recording talks with the Persian Government about the British diplomatic representation in Tehran (communicated by the Swiss Minister).	119
103 To Mr. Wright (Tehran) No. 1	Dec. 16	United Kingdom railway equipment for Persia ..	119
104 Mr. Eden .. No. 2	Dec. 17	Policy of Her Majesty's Government in the re-establishment of Diplomatic Relations with the Persian Government .. Fair compensation wanted for Anglo-Iranian Oil Company; our wish that Persia does not do better out of her oil than her neighbours; future action to be concerted with United States Government.	120
105 Mr. Wright .. No. 4 (Telegraphic)	Dec. 23	Resumption of diplomatic relations : Presentation of credentials by Her Majesty's Ambassador ..	122

No. and Name	Date	SUBJECT	Page
106 Mr. Wright .. No. 6 (Telegraphic)	Dec. 23 1953	Her Majesty's Ambassador's meeting with Shahrukh and Perron ; Shah's views on future relations ..	123
Nos. 12, 14 and 15 (Telegraphic)	Dec. 26		
No. 22 (Telegraphic)	Dec. 29		
To Mr. Wright .. (Tehran)	Dec. 28		
No. 7 (Telegraphic)			
107 Mr. Wright .. No. 25	Dec. 29	Discussion with Persian Minister for Foreign Affairs on the oil problem .. Persian desire for marketing to be done by consortium of foreign companies and refining by Persian company; our desire was for return of Anglo-Iranian Company but this solution not acceptable to Persian Government; our two basic principles fair compensation and a price to Persia for her oil equal to that of her neighbours.	126
108 Mr. Wright .. No. 1	Dec. 31	The forthcoming Persian elections .. Great interest shown by the local press in the elections; absence of serious political parties deplored; Government confident that they can stage elections without bloodshed; belief that Dr. Musaddiq and extreme Nationalists will enjoy more popular support than present régime.	127
109 Eastern Department..	Dec. 31	Quarterly Political Report : October-December 1953 ..	127

Chapter II—Persian Political Summaries

110 Eastern Department..	1953 Feb. 11	Political Summary : Period December 1952 to January 1953 ..	130
111 Eastern Department..	Mar. 17	Monthly Summary : Period February 1953 ..	133
112 Eastern Department..	May 7	Monthly Summary : Period March-April 1953 ..	134
113 Eastern Department..	June 16	Monthly Summary : Period May 1953 ..	136
114 Eastern Department..	July 13	Monthly Summary : Period June 1953 ..	137

FURTHER CORRESPONDENCE RESPECTING
PERSIA—PART 7

SUBJECT INDEX

(The figures denote the serial numbers of the documents)

AGREEMENTS, INITIALLING OF—7.
ANGLO-AMERICAN PROPOSALS—9, 12, 16.
ANGLO-IRANIAN AGREEMENTS, DRAFTS OF—5.
ANGLO-IRANIAN JOINT COMMUNIQUE—91, 92, 99, 101.
ANGLO-IRANIAN OIL COMPANY—
 Company's agreement to our new approach to Dr. Musaddiq—8.
BANK MELLI—1.
CASPIAN FISHERIES AGREEMENT—17.
CHANCELLOR OF THE EXCHEQUER—
 Correspondence with the Secretary of the United States Treasury—42.
COMPENSATION AGREEMENT—23, 36, 50, 55.
CONSORTIUM, PROPOSALS FOR—107.
DIPLOMATIC RELATIONS, RESUMPTION OF—69, 74, 79, 85, 86, 87, 88, 97, 102, 104, 105.
DR. MUSADDIQ—
 His refusal to face up to our proposals—24.
 American concern over his complaints—26.
 His broadcast of March 20—48.
ELECTIONS—108.
FOREIGN NATIONALS—
 Law restricting the entry of into Persia—3.
GENERAL ZAHEDI—62, 80.
INTERIM SETTLEMENT, CONSIDERATIONS CONCERNING—67, 72, 89, 95.
ITALIAN AMBASSADOR IN LONDON—
 Conversations with Sir Pierson Dixon—46, 52.
ITALIAN POLICY—28, 34.
JAPANESE COMMERCIAL POLICY—33, 35, 41, 45, 53.
KASHANI, DIFFERENCE WITH DR. MUSADDIQ—24.
"MIRELLA"—
 Decision concerning her oil cargo—11, 29.
MR. BROCKWAY—
 Parliamentary Question by—94.
MR. DULLES—70.
MR. HOOVER, VISIT OF TO PERSIA—75, 78, 81, 82, 84.
"NISSHO MARU" CASE—40.
OIL PRICES, WORLD SITUATION CONCERNING—37.
"PACKAGE" PROPOSALS—6.
POLITICAL SITUATION, REPORTS ON—13, 44, 93.
POLITICAL SUMMARIES—110, 111, 112, 113, 114.
PRESIDENT EISENHOWER—4, 43, 51, 57.
QUARTERLY POLITICAL REPORTS—90, 109.
RAIL EQUIPMENT FOR PERSIA—61, 103.
SECRETARY OF STATE—
 Conversation with the United States Ambassador—98.
 House of Commons statement—76, 83, 96.
SHAH OF PERSIA—
 His desire to resume normal diplomatic relations—64, 71, 73, 77, 106.
 New Persian Government, his concern at the weakness of—63.
SOVIET-IRANIAN RELATIONS—49, 59.
SYNDICATE, MARKETING, FOR PERSIAN OIL—66.
TUDEH PARTY—15, 54.
UNITED KINGDOM PROPOSALS FOR A SETTLEMENT—25, 31.
UNITED STATES AID—58.
UNITED STATES AMBASSADOR AT TEHRAN—
 His meetings with Dr. Musaddiq—10, 14, 19, 22, 27, 30, 32, 47.
UNITED STATES ASSISTANCE IN THE OIL NEGOTIATIONS—
 United Kingdom statement concerning—100.
UNITED STATES OIL COMPANIES—38, 39, 60.
UNITED STATES POLICY—18, 65.
UNITED STATES PROPOSALS FOR A SETTLEMENT—2, 20.

CHAPTER I—GENERAL CORRESPONDENCE

EP 1111/3

No. 1

INCREASE IN CURRENCY ISSUE BY THE BANK MELLI

From Sir C. Steel to Foreign Office

(No. 2130. Saving. Confidential)
(Telegraphic)

Washington,
January 1, 1953.

My immediately preceding telegram: Persia: Finance.

The United States Embassy, Teheran, had hoped to be able to secure a confidential statement on the increase in currency issue prepared by the Bank Melli, but instead the United States Treasury representatives Ghiardi and Norden were informed verbally, that the increase in currency issue since August 22 amounted to 1,500 million rials, of which 500 million had been added to the note reserve, at present between 1,200 and 1,300 rials. The 1,000 million rials increase in currency mentioned in my telegram No. 2128 Saving is therefore assumed to refer to an increase in currency actually in circulation.

2. The same source also stated that the Government debt to the Banking Department was reduced by 1,000 million rials at the time the Bank Melli reserves were capitalised in early October and this amount added to the Government debt, to the Issue Department. Subsequently, the Government's revolving credit with the Bank Melli was raised from 1,000 million to 2,500 million rials. The total of the Government debt is not yet available but some people believe it is probably close to 5,000 million rials, which is the legal limit. The Bank Melli is advancing 200 million rials monthly, mostly for the budget, which is charged to this account. Another 150 million rials is being advanced monthly to the National Iranian Oil Company, probably 50 to 100 million rials to Plan Organisation, and additional amounts for the Teheran Water Supply and other public needs, but these advances are for the Government guarantee account.

3. The source believes that knowledge of the increase in the issue is now fairly widespread and only political uncertainty and the possibility of an oil settlement and/or a large United States loan could dampen its inflationary effects. The source stated that the price rise has now started and is greater than Bank Melli indices indicate. The Tudeh newspapers, for instance, are already criticising the Government for the rising cost of living. Because of the political situation, large amounts of currency are being hoarded. When the hoarders decide to convert this to goods, marked inflationary symptoms are sure to arise.

4. The United States Embassy add that these figures on Government borrowing are in line with their own estimates. The substantial note reserve should enable the Government to continue borrowing at the present rate beyond the 20 per cent. at present authorised under the full powers. However, now that the Government has cast off the monetary moorings, the Bank Melli is finding it harder to resist pressure from Plan Organisation, business firms, and the Treasury, and some believe that this portends an accelerated spiral—unless counter-inflationary measures are taken, such as a substantial increase in taxation and mobilisation of the gold reserve for exchange sales in the open market.

EP 1531/18

No. 2

TELEGRAM FROM UNITED STATES AMBASSADOR, TEHRAN, TO
UNITED STATES STATE DEPARTMENT, GIVING DRAFT FOR
A PROPOSED PERSIAN COMMUNIQUE (REFERRED TO IN
WASHINGTON TELEGRAM NO. 9 OF JANUARY 5)

(Communicated by United States Embassy: January 6, 1953)

(Confidential)

During my last two conversations with Musaddiq he has told me he might be compelled on short notice to make report to Majlis of our various conversations. He says he would like to make report of character which acceptable to me and has asked me if I could not give him what I consider to be fair brief summary of each conversation. He stressed he wished these summaries to be drawn up in such way as to be helpful. I shall do my best to postpone giving him any summaries until we have proceeded further. Nevertheless if he presses me I should like to be able to hand him summaries of some kind or at least to be able to read them to him so he will know that they are available. If I should give them to him I would insist on doing so only on understanding that he would not regard me as author but consider them

as his own summaries. I have therefore tentatively prepared summaries of each our conversations. I am submitting herewith for Department's examination summaries of past three conversations prepared by me. I am anxious they should not contain anything which in opinion of Department would be unduly embarrassing. Department's comments would be appreciated.

1. Mr. Henderson called on Dr. Musaddiq on December 25 in order to inform latter regarding some of impressions which he had obtained in United States and to discuss various aspects of oil problem in light of what he had learned while in Washington. The Ambassador told the Prime Minister that the Government of the United States was extremely anxious that some solution of oil problem should be found in view its friendship for both Iran and the United Kingdom; of its desire that a dispute of this kind between two of its friends should not continue; and of its belief that dispute should be settled in manner fair to both parties so that Iran would again begin to receive oil revenues and Iranian oil would again begin to flow into world markets.

2. The Ambassador said that highest officials of United States Government were devoting much time and thought to ways in which oil problem might be resolved. While he was in Washington possibility was discussed of problem being solved on a basis somewhat as follows: (A) Settlement of issue of compensation preferably on basis of arbitration before international tribunal such as I.C.J. (B) Obtaining by Iran of assurance that Iranian oil begin again to flow into world markets in substantial quantities through conclusion with some establishment international oil marketing organisation of a contract providing for purchase of Iranian oil in really substantial quantities annually over a fixed period of years and (C) Advance to Government of Iran immediately upon signing of an arbitration compensation agreement, of sufficient funds to enable it to meet its budgetary and other needs until such time as substantial revenues from oil would again begin to accrue. The Ambassador added that of course it was idea of official of Department that a settlement of this kind should be effected in such way that Iran would remain in control of its own oil industry.

3. Regarding matter of sale Iranian oil the Ambassador said that it was general view in Washington that only international commercial organisation which would possess transport and marketing facilities for handling really substantial quantities Iranian oil for some time to come was A.I.O.C. and it was thought therefore that it would be advantageous to Iran following conclusion of an arbitration compensation agreement for Iran to enter into negotiations with that company for purpose of assuring itself a substantial export of oil for period of years. There was of course no idea that A.I.O.C. would be given monopoly of purchase of Iranian oil.

4. With respect to point (C) the Ambassador said that United States Government was exploring possibility of entering either directly or indirectly into an arrangement for purchase of considerable quantity of oil from Iran immediately upon conclusion of arbitration compensation agreement. Idea was that this purchase would be for not less than \$100 million worth of oil and that payment for it would be advanced in such way that Iran would have sufficient funds to meet its current needs pending resumption revenues from sale its oil abroad.

5. The Ambassador said that he had been instructed by his Government to discuss matter frankly with the Prime Minister to ascertain from him whether in his opinion such settlement along these lines would be satisfactory to Iran. The Ambassador understood that his Government was also discussing this matter with the Government of the United Kingdom.

6. The Prime Minister pointed out that he had already expressed willingness, subject of course to subsequent approval Majlis, to enter into agreement for settling problem of compensation by arbitration between Government of Iran and former company. He had already stated his willingness that I.C.J. should act as arbitrator. Re terms of reference for such arbitration Prime Minister said that Iran Government was willing settle question compensation with former company by arbitration on basis any English law acceptable to former A.I.O.C. which nationalised any industry.

7. It would be understood of course that arbitral tribunal would also examine all Iranian claims and counter-claims.

8. In response to Ambassador's enquiry Prime Minister said that he was agreeable to Ambassador's conveying to his Government willingness of Prime Minister to submit question of arbitration to I.C.J. on this basis. Prime Minister then enquired if he was correct in his understanding that American Government was considering possibility of entering into purchasing contract either directly or indirectly of Iranian oil which would provide Iran with funds to meet its current needs immediately upon signing of an arbitration compensation agreement without awaiting conclusion of arrangements for Iran to sell its oil over term of years. Ambassador replied in affirmative. It was understood between Prime Minister and Ambassador that after Ambassador had consulted his Government re progress which had been made there would be further discussions between them.

9. On December 31 Dr. Musaddiq and Ambassador again discussed various phases of settlement of oil problem. Ambassador said that he had received telegram from Washington stating that there was some difficulty involved in submission to I.C.J. of a dispute between Iranian Government and A.I.O.C. This difficulty arose from fact that Article 34 of charter of I.C.J. provided that only States may be parties in cases before Court. Prime Minister

replied that his idea was somewhat as follows: "Either all judges of the I.C.J. who are members of Court at time signature arbitration compensation agreement should be appointed as arbitrators or only the two judges who were members of Court when Anglo-Iranian case was heard, namely Mr. McNair and Dr. Sanjabi, should be appointed by both parties as arbitrators. These two arbitrators would appoint joint arbitrator.

10. In case Mr. McNair should be president of I.C.J. and he should preside over arbitral tribunal, Iranian Government would have no objection and it would even be prepared to give up idea of sending its special judge who had been appointed at time Anglo-Iranian case was before I.C.J. If any member I.C.J. who would be member at time signature of compensation arbitration agreement, should leave court it would still be he who would act as arbitrator, not his successor.

11. Compensation arbitration agreement may be signed by British Government as representative company.

12. Following conclusion arbitration compensation agreement American Government or some American firm shall advance at least \$100 million and shall purchase oil afterward until such time as its account settled. These conversations shall not be valid until they have been approved by Majlis.

13. The Ambassador stated that he would immediately inform his Government of Dr. Musaddiq's views in this regard. The Prime Minister and the Ambassador then discussed manner in which following conclusion of an arbitration compensation agreement Iran might make sure that Iranian oil would again begin to flow into foreign markets and continue to flow in substantial quantities for a fixed period. The Prime Minister said that he was not willing to enter into negotiations directly with former company immediately after conclusion of arbitration compensation agreement for sale to that company for term of years of substantial quantities Iranian oil. The Prime Minister and the Ambassador decided to discuss that problem in subsequent conversation.

14. A further conversation took place between Dr. Musaddiq and Mr. Henderson on January 2, 1953. A portion of this conversation was devoted to problem of how Iran might be assured of resumption of substantial revenues from sale abroad of oil following conclusion of an arbitration compensation agreement. The Prime Minister stated that he was willing, subject of course to approval Majlis, to sign agreement for sale of definite quantity crude and refined oil over definite period years with an international organisation which former A.I.O.C. may or may not be participant or with United States company or agency. During conversation Prime Minister made it clear that he would be willing to undertake in such an agreement to sell substantial amount oil to such an international organisation but that he would not be willing give such an organisation monopoly on foreign purchasing Iranian.

15. There was also further discussion re Iranian oil-nationalisation law and method by which any compensation which Iran might be found to owe should be paid off. The Prime Minister's position in this regard was as follows:

"After signing arbitration agreement 25 per cent. of proceeds of all sales abroad of crude oil and products should be deposited in bank acceptable to both parties. Amount so deposited would be used so far as might be necessary to pay any compensation which might be found due former company. If there should be any balance left after payment compensation that balance would be turned over to Iranian Government. After decision arbitration board has been handed down and if Iran should still be found to be owing to former company, 25 per cent. of proceeds of sales abroad would be payable to former company until such time as full amount of compensation had been paid."

16. The Prime Minister said he hoped however regardless of his views with respect to method of payments of compensation that arrangements could be effected whereby Iran could be placed in possession of at least \$100 million accruing from purchase by American Government of Iranian oil.

17. The American Ambassador said he would present the Prime Minister's views to his Government adding that he had just received message from his Government indicating that United States Government agency which would be responsible purchasing at least \$100 million worth of Iranian oil might prefer to give Iran substantial part of amount contracted for in cash immediately upon conclusion arbitration compensation agreement and sales contract agreement, and to pay balance over a subsequent period of some six or seven months. Prime Minister indicated no objection to this arrangement.

EP 1022/1

No. 3

**BROADCAST BY TEHRAN RADIO ON DECEMBER 23, 1952
(COMMUNICATED BY THE B.B.C.)**

The Law Restricting the Entry of Foreign Nationals

Tehran,

January 7, 1953.

Article (1). The re-appointment of those who have held any appointment in Persia prior to the approval of this Law shall not be accepted.

Note (1). The Foreign Ministry may accept, provided that its action be approved by the Majlis Foreign Affairs Committee, the re-appointment of persons who have worked during the term of their appointment of service in Persia for the improvement of relations between their Government and the Persian Government.

Note (2). Foreign nationals who have a record of interference in the internal affairs of Persia shall be forbidden to enter Persia.

Article (2). With effect from the date of approval of this Law, the establishment of foreign consulates in any part of the country shall be subject to the proposal of the Foreign Ministry and the approval of the Majlis Foreign Affairs Committee.

Article (3). The Ministry of Foreign Affairs is authorised to carry out this Law. By virtue of the Law granting special powers dated 11th August, 1952, the Law restricting the entry of foreign nationals composed of three articles and two clauses is hereby approved.

EP 10345/20

No. 4

**CORRESPONDENCE BETWEEN PRESIDENT EISENHOWER AND
Dr. MUSADDIQ**

(1)

His Excellency,
The President Elect of the United States of America,
General Dwight D. Eisenhower,
Columbia University,
New York City.

Mr. President Elect:

I take this opportunity to convey to you the cordial congratulations of the Iranian people on your election to the high office of President of the United States and to wish you every success in the carrying out of the important tasks which that office imposes.

I dislike taking up with you the problems of my country even before you assume office. I do so partly because of their urgency and partly because I have reason to believe that they have already been presented to you by those who may not share my concern for the future of Iran and its people.

It is my hope that the new administration which you will head will obtain at the outset a true understanding of the significance of the vital struggle in which the Iranian people have been engaging and assist in removing the obstacles which are preventing them from realising their aspirations for the attainment of [omission] life as a politically and economically independent nation. For almost two years the Iranian people have suffered acute distress and much misery merely because a company inspired by covetousness and a desire for profit supported by the British Government has been endeavouring to prevent them from obtaining their natural and elementary rights. I am happy to say that during this struggle so injurious to the people of Iran the American people on many occasions have demonstrated their sympathy for the Iranian nation and an understanding of its problems. I personally witnessed many manifestations of this sympathy and understanding when I was in the United States. Unfortunately the Government of the United States while on occasions displaying friendship for Iran has pursued what appears to the Iranian people to be a policy of supporting the British Government and the former company. In this struggle it has taken the side of the British Government against that of Iran in international assemblies. It has given financial aid to the British Government while withholding it from Iran and it seems to us it has given at least some degree of support to the endeavours of the British to strangle Iran with a financial and economic blockade. It is not my desire that the relations between the United States and the United Kingdom should be strained because of differences with regard to Iran. I doubt however whether in this day and age a great nation which has such an exalted moral standing in the world can afford to support the internationally immoral policy of a friend and ally

January 9, 1953.

merely in order not to disturb good relations with that friend and ally. The Iranian people merely desire to lead their own lives in their own way. They wish to maintain friendly relations with all other peoples. The former company which for years was engaged in exploiting their oil resources unfortunately persisted in interfering in the internal life of the country. The Iranian people finally became convinced that so long as this company continued to operate within Iran its systematic interference in Iranian internal life would continue. The Iranian people therefore had no choice other than to exercise their sovereign rights by nationalising their oil and terminating the activities of the former company in Iran. The Iranian Government made it clear at the time of nationalisation that it was willing to pay fair compensation to the former company due consideration being given to such claims and counterclaims as Iran might have against the former company. The former company instead of entering into negotiations with Iran for the purpose of determining the amount of compensation due took steps with the support of the British Government to create an economic and financial blockade of Iran with the purpose of forcing the Iranian people again to submit to the will of the former company and to abandon their right to exploit and utilise their own natural resources. It is my sincere hope that when the new Administration of which you are to be the head will come into power in the United States it will give most careful consideration to the Iranian case so that Iran would be able to attain its just aspirations in a manner which will strengthen the cause of world peace and will renew confidence in the determination of the United States to support with all its power and prestige the principles of the charter of the United Nations.

I have, &c.

DR. MOHAMMAD MUSADDIQ.

Prime Minister of Iran

EP 10345/20

(2)

His Excellency,
Dr. Mohammad Musaddiq,
Prime Minister of Iran,
Teheran, Iran.

January 10, 1953.

Please accept my thanks for your kind greetings and felicitations. Likewise I am happy to have a summary of your country's situation and I shall study those views with care and with sympathetic concern. I hope you will accept my assurances that I have in no way compromised our position of impartiality in this matter and that no individual has attempted to prejudice me in the matter. This leads me to observe that I hope our own future relationships will be completely free of any suspicion, but on the contrary will be characterised by confidence and trust inspired by frankness and friendliness. I shall be delighted to receive either personally and directly or through established diplomatic channels at any time a communication regarding your views on any subject in which we may have a common interest.

With renewed thanks for the kindly courtesy of your message and with expression of my continued esteem.

Sincerely,

DWIGHT D. EISENHOWER.

EP 10345/19

(3)

**MESSAGE FROM Dr. MUSADDIQ TO PRESIDENT EISENHOWER
DATED MAY 28, 1953**

Dear Mr. President:

In the kind reply which you sent to my message of last January you suggested that I might inform you direct or through diplomatic channels of any views that may be of mutual interest.

In that message I had briefly referred to the hardships and privations which the Iranian people had undergone during the last two years in their efforts to attain their aspirations and also to the difficulties which the British Government has created for Iran in its support of the illogical claims of an imperialistic company.

During the few months that have elapsed since the date of that message the Iranian people have been suffering financial hardships and struggling with political intrigues carried on by the former Oil Company and the British Government. For instance, the purchasers of Iranian oil have been dragged from one court to another, and all means of propaganda and diplomacy have been employed in order to place illegal obstacles in the way of the sale of Iranian oil. Although the Italian and Japanese courts have declared Iranian oil to be free and unencumbered, the British have not as yet abandoned their unjust and unprincipled activities.

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Although it was hoped that during your Excellency's administration attention of a more sympathetic character would be devoted to the Iranian situation, unfortunately no change seems thus far to have taken place in the position of the American Government.

In the message which the Secretary of State sent me from Karachi, he expressed regret that the efforts of the United States to contribute to the solution of the problem of compensation had thus far been unsuccessful. It should be recalled that the Iranian Government was prepared to pay the value of the former Company's properties in Iran in such amount as might be determined by the International Court of Justice. It was also prepared to accept the jurisdiction of the said court with regard to the amount of compensation provided the British Government would state the amount of its claim in advance and that claim would be within the bounds of reason. Obviously the Iranian Government also had certain claims against the former Oil Company and the British Government which would have been presented at the time of the hearing of the case.

The British Government, hoping to regain its old position, has in effect ignored all of these proposals.

As a result of actions taken by the former Company and the British Government, the Iranian nation is now facing great economic and political difficulties. There can be serious consequences, from an international viewpoint as well, if this situation is permitted to continue. If prompt and effective aid is not given this country now, any steps that might be taken tomorrow to compensate for the negligence of today might well be too late.

We are of course grateful for the aid heretofore granted Iran by the Government of the United States. This aid has not, however, been sufficient to solve the problems of Iran and to ensure world peace which is the aim and ideal of the noble people and of the Government of the United States.

The standard of living of the Iranian people has been very low as a result of century-old imperialistic policies, and it will be impossible to raise it without extensive programmes of development and rehabilitation. Unfortunately the aid heretofore granted has been in principle primarily of a technical nature, and even in this respect the assistance needed has not at times been accorded. For example, the Export-Import Bank which was to have advanced Iran twenty-five million dollars for use in the sphere of agriculture did not do so because of unwarranted outside interference.

The Iranian nation hopes that with the help and assistance of the American Government the obstacles placed in the way of sale of Iranian oil can be removed, and that if the American Government is not able to effect a removal of such obstacles, it can render effective economic assistance to enable Iran to utilise her other resources. This country has natural resources other than oil. The exploitation of these resources would solve the present difficulties of the country. This, however, is impossible without economic aid.

In conclusion, I invite your Excellency's sympathetic and responsive attention to the present dangerous situation of Iran, and I trust that you will ascribe to all the points contained in this message the importance due them.

Please accept, &c.
DR. M. MUSADDIQ.

EP 10345/19

(4)

MESSAGE FROM PRESIDENT EISENHOWER TO Dr. MUSADDIQ

(not dated but delivered July 3, 1953)

I have received your letter of May 28 in which you described the present difficult situation in Iran and expressed the hope that the United States might be able to assist Iran in overcoming some of its difficulties. In writing my reply which has been delayed until I could have an opportunity to consult with Mr. Dulles and Ambassador Henderson, I am motivated by the same spirit of friendly frankness as that which I find reflected in your letter.

The Government and people of the United States historically have cherished and still have deep feelings of friendliness for Iran and the Iranian people. They sincerely hope that Iran will be able to maintain its independence and that the Iranian people will be successful in realising their national aspirations and in developing a contented and free nation which will contribute to world prosperity and peace.

It was primarily because of that hope that the United States Government during the last two years has made earnest efforts to assist in eliminating certain differences between Iran and the United Kingdom which have arisen as a result of the nationalisation of the Iranian oil industry. It has been the belief of the United States that the reaching of an agreement in the matter of compensation would strengthen confidence throughout the world in the determination of Iran fully to adhere to the principles which render possible a harmonious community of free nations; that it would contribute to the strengthening of the international credit standing of Iran; and that it would lead to the solution of some of the financial and economic problems at present facing Iran.

The failure of Iran and of the United Kingdom to reach an agreement with regard to compensation has handicapped the Government of the United States in its efforts to help Iran. There is a strong feeling in the United States, even among American citizens most sympathetic to Iran and friendly to the Iranian people, that it would not be fair to the American taxpayers for the United States Government to extend any considerable amount of economic aid to Iran so long as Iran could have access to funds derived from the sale of its oil and oil products if a reasonable agreement were reached with regard to compensation whereby the large-scale marketing of Iranian oil would be resumed. Similarly, many American citizens would be deeply opposed to the purchase by the United States Government of Iranian oil in the absence of an oil settlement.

There is also considerable sentiment in the United States to the effect that a settlement based on the payment of compensation merely for losses of the physical assets of a firm which has been nationalised would not be what might be called a reasonable settlement and that an agreement to such a settlement might tend to weaken mutual trust between free nations engaged in friendly economic intercourse. Furthermore, many of my countrymen who have kept themselves informed regarding developments in this unfortunate dispute believe that, in view of the emotions which have been aroused both in Iran and the United Kingdom, efforts to determine by direct negotiation the amount of compensation due are more likely to increase friction than to promote understanding. They continue to adhere to the opinion that the most practicable and the fairest means of settling the question of compensation would be for that question to be referred to some neutral international body which could consider on the basis of merit all claims and counter-claims.

I fully understand that the Government of Iran must determine for itself which foreign and domestic policies are likely to be most advantageous to Iran and to the Iranian people. In what I have written, I am not trying to advise the Iranian Government on its best interests. I am merely trying to explain why, in the circumstances, the Government of the United States is not presently in a position to extend more aid to Iran or to purchase Iranian oil.

In case Iran should so desire, the United States Government hopes to be able to continue to extend technical assistance and military aid on a basis comparable to that given during the past year.

I note the concern reflected in your letter at the present dangerous situation in Iran and sincerely hope that before it is too late, the Government of Iran will take such steps as are in its power to prevent a further deterioration of that situation.

EP 1531/75

No. 5

AGREEMENT BETWEEN IRAN AND THE UNITED KINGDOM PROVIDING FOR THE SETTLEMENT OF CLAIMS BETWEEN THE GOVERNMENT OF IRAN AND THE ANGLO-IRANIAN OIL COMPANY

(1)

From Foreign Office to the Hon. Walter S. Gifford

(Confidential)

Your Excellency,

Foreign Office,

January 14, 1953.

I have the honour to transmit to you herewith the drafts of:

- (a) an agreement between the Government of Iran and the Government of the United Kingdom providing for the settlement of claims and counter-claims between the Government of Iran and the Anglo-Iranian Oil Company by international arbitration;
- (b) an exchange of letters between the two Governments for the regulation of certain questions connected therewith.

These drafts follow the conclusions arrived at by myself and my colleagues with your Excellency and Mr. Byroade in our recent conversations, and have been approved by Her Majesty's Government in the United Kingdom and by the Anglo-Iranian Oil Company.

I shall be glad if your Excellency will communicate these drafts as soon as possible to the United States Ambassador at Tehran, together with the draft agreement between the United States Defense Materials Procurement Agency and the Government of Iran, of which Her Majesty's Government and the Anglo-Iranian Oil Company have taken cognisance, and cause Mr. Henderson to be instructed to present the three drafts to the Government of Iran, and use his best endeavours to secure that Government's agreement to them.

I have, &c.

ANTHONY EDEN.

(Secret)

Arbitration Agreement

The Government of Iran and the Government of the United Kingdom:

Desiring to bring about a settlement of all claims and counter-claims which have arisen between the Government of Iran and the Anglo-Iranian Oil Company and to submit the matter to international adjudication, to take place between the Government of Iran and the Company:

Conscious, however, of the fact that, under Article 34, paragraph 1, of its Statute, the International Court of Justice can only entertain cases of which States are parties:

Have agreed that the said claims and counter-claims shall be referred to international arbitration between the Iranian Government on the one hand, and the Anglo-Iranian Oil Company on the other, in the manner provided by, and before a Tribunal constituted as specified in, Parts I and II of the present Agreement, and that the arrangements for the payment of any balance due from either Party to the other in consequence of the award of the Tribunal shall be those set out in Part III:

Part I

1. (a) The above-mentioned claims and counter-claims shall be referred to a Tribunal consisting of those members of the International Court of Justice who hold office as Judges of the International Court of Justice on the date of the conclusion of the present Agreement, together with the Iranian Judge *ad hoc* who was designated to sit on the International Court of Justice in 1952: provided that the number of members of the Tribunal so constituted shall not be fewer than the number of Judges (including the Iranian Judge *ad hoc*) which made up the bench of the International Court of Justice in July, 1952, for the hearing of the preliminary issue of jurisdiction in the Anglo-Iranian Oil Company case. In the event of the resignation or retirement of any Judge from the International Court of Justice, such Judge shall continue to sit on the Tribunal in his unofficial capacity. In the event of the death, incapacity, or withdrawal from the Tribunal of any member, the remaining members of the Tribunal shall proceed to adjudicate the case. The Tribunal shall select its President, and shall take its decisions, and give its award, by a majority vote.

(b) If the Tribunal cannot be constituted as set out in sub-paragraph (a) above, the matter shall be referred to a Tribunal composed of the following Judges of the Court acting in a private capacity, and assuming they are willing so to act: that is to say the United Kingdom Judge, the Iranian Judge *ad hoc*, above referred to, and any other three Judges agreed upon between the United Kingdom and Iranian Judges: or, if they are unable so to agree within two months from the date on which the present Agreement has been communicated to the Court as provided in Article 11 hereof, any three Judges designated after consultation with the United Kingdom and Iranian Judges by the Vice-President of the Court, who shall in any case designate one of the three additional Judges to act as President of the Tribunal. In the event of the death, incapacity, or withdrawal from the Tribunal of the United Kingdom Judge, the Anglo-Iranian Oil Company shall have the option of designating a substitute member of the Tribunal; in the event of the death, incapacity, or withdrawal of the Iranian Judge *ad hoc*, the Government of Iran shall have the option of designating a substitute member. In the event of the death, incapacity, or withdrawal of any of the remaining members of the Tribunal, a substitute member shall be designated by means of the same processes by which his predecessor was designated. In the event of the death, incapacity, or withdrawal from the Tribunal of its President, his successor (who shall replace him as President) shall be designated by the Vice-President of the International Court of Justice. The Tribunal shall take its decisions, and give its award, by a majority vote.

(c) If the Tribunal is not constituted in one of the foregoing ways, the matter shall be referred to a Tribunal consisting of five eminent jurists from outside the Court, to be nominated after consultation with the Parties and with the Court by the Vice-President of the Court, who shall also designate one of them to act as President of the Tribunal. In the event of the death, incapacity, or withdrawal of any member of the Tribunal, a successor shall, by the same process, be nominated by the Vice-President of the Court. The Tribunal shall take its decisions, and give its award, by a majority vote.

2. The function of the Tribunal shall be:—

- (1) to determine the sum required to provide fair compensation to the Anglo-Iranian Oil Company for the loss of its enterprise in Iran as the result of the Iranian Oil Nationalisation Laws of March and May, 1951; and for that purpose the Tribunal shall employ the principles applied for the purpose of determining the compensation awarded under any United Kingdom Law which the Company may specify, nationalising any industry in the United Kingdom;
- (2) to determine the validity of all counter-claims which the Iranian Government may have against the Anglo-Iranian Oil Company, and the sum required to meet them.

3. In determining the matters specified in Article 2 above, and subject to the provisions of that Article, the Tribunal shall give its decision in accordance with international law, applying—

- (a) any relevant international conventions by which the Governments of Iran and the United Kingdom are both bound;

- (b) international custom, as evidence of a general practice accepted as law;
- (c) the general principles of law recognised by civilised nations;
- (d) judicial decisions and the teachings of the most highly qualified publicists of the various nations, as subsidiary means for the determination of rules of law.

4. The decisions of the Tribunal shall be definitive and binding on both the Parties to the arbitration (hereinafter called the Parties), and the Tribunal's award, which shall be expressed in terms of sterling, shall be regarded as a full and final settlement of all claims and counter-claims of the Parties.

Part II

5. If the Tribunal is constituted in the manner specified in Article 1(a) or 1(b) hereof, its procedure (and all matters incidental thereto) shall, *mutatis mutandis*, and so far as deemed appropriate by the Tribunal, be the same as that provided for the International Court of Justice by its Statute and Rules of Court.

6. If the Tribunal is constituted in the manner specified in Article 1(c), it shall (subject to the terms of the present Agreement) settle its own procedure, but shall in any case apply the following provisions:

- (a) As soon as possible after the coming into force of the present Agreement, and after the nomination of the Members of the Tribunal as provided in Article 1(c) hereof, the President of the Tribunal (hereinafter called the President) shall, in consultation with representatives of the Parties, as designated by them, determine the procedure for the exchange of written pleadings between the Parties (number, order and time-limits, &c.) and for their transmission to the members of the Tribunal.
- (b) As soon as possible after receipt of the last of the written pleadings, the President shall, after consultation with the other Members of the Tribunal and with the representatives of the Parties, name the date and place for the oral hearing and determine the order in which the arguments of the Parties are to be presented.
- (c) The Tribunal shall give its award as soon as possible after the close of the oral hearing.
- (d) The Tribunal shall hold such sittings, whether for private deliberation or for hearing the Parties, as it may consider necessary for the carrying out of its functions under the present Agreement.
- (e) Subject to the provisions of Article 7 below, the President shall make all the necessary formal arrangements in connection with the sittings of the Tribunal (premises, and interpreting, clerical and stenographic staff).
- (f) The languages of the Tribunal shall be English and French. The written and oral pleadings and statements of the Parties may be drawn up or presented in either language, and the arrangements for translation and for the interpretation of speeches shall be determined by the President in consultation with the other Members of the Tribunal and the representatives of the Parties.

7. Whatever the character of the Tribunal, each of the Parties shall bear its own costs of the arbitration. The expenses of the Tribunal shall be borne by the Parties in equal shares. Any question relating to the fees, expenses and allowances of the President, and of the other Members of the Tribunal, and all matters incidental thereto such as the time and method of payment, shall be determined by the Parties in consultation with the President.

Part III

8. Any balance due by either of the Parties to the other in consequence of the award of the Tribunal shall be paid as follows:—

- (1) Any balance due from the Iranian Government to the Anglo-Iranian Oil Company shall be discharged by payments in cash in sterling, to the credit of the Company, in a bank designated by the latter, of 25 per cent. of the receipts from all sales of oil and oil products exported from Iran; or, if so agreed between the Iranian Government and the Anglo-Iranian Oil Company, by deliveries of oil to the Company in such quantities and over such period of years as shall be mutually determined by them.
- (2) If a balance is due from the Anglo-Iranian Oil Company to the Iranian Government, it shall be discharged by payments in cash in sterling to the credit of the Iranian Government with a bank designated by the latter of such amounts over such period of years as shall be agreed between the Iranian Government and the Company; or, in default of such agreement, in such amounts over such period of years, as shall be determined by an arbitrator appointed by the Vice-President of the International Court of Justice.

9. Pending the award of the Tribunal, 25 per cent. of the receipts from all sales of oil and oil products exported from Iran shall, unless another currency is agreed between the Government of Iran and the Anglo-Iranian Oil Company, be deposited in sterling in a trust account with a financial institution or trustee bank to be agreed upon between the Government of Iran and the Company, or, in default of such agreement, to be specified by

the Vice-President of the International Court of Justice, and shall await the award of the Tribunal. Any balance remaining in the trust account after the discharge of the award shall be paid to the Government of Iran.

10. Any amount still outstanding under Article 8(1) or 8(2) above, one year after the date of the award of the Tribunal, and thereafter from year to year, shall carry interest at a rate to be agreed between the Iranian Government and the Anglo-Iranian Oil Company, or, in default of such agreement, to be determined by an arbitrator appointed by the Vice-President of the International Court of Justice.

Part IV

11. The present Agreement shall be subject to ratification and shall come into force immediately upon the exchange between the Governments of Iran and the United Kingdom of their respective instruments of ratification. The Agreement shall thereupon be communicated to the International Court of Justice.

In faith whereof the undersigned Plenipotentiaries have signed the present Agreement.

(2)

LIFTING OF EMBARGO. TANKER IMMUNITY

United Kingdom—Iranian Exchange of Letters

(Secret)

1. United Kingdom Letter

Your Excellency,

I have the honour to inform you that, following on the entry into force of the Agreement between our two Governments for arbitration in the oil dispute, the Anglo-Iranian Oil Company will offer no further objection to the export and sale abroad of Iranian oil and oil products.

2. Iranian Letter

Your Excellency,

I acknowledge receipt of your Excellency's letter of to-day's date informing me that following on the entry into force of the Agreement for arbitration in the oil dispute, the Anglo-Iranian Oil Company will offer no further objection to the export and sale abroad of Iranian oil and oil products.

I have the honour to inform your Excellency, in connection with such exports and sales, that my Government and the National Iranian Oil Company for their part will offer no impediment to the complete freedom of entry to, loading in, and departure from, Iranian ports and waters, on the part of all tankers or other vessels concerned with traffic in oil or oil products, irrespective of nationality or ownership; and that they will also use their best endeavours to facilitate all port, shipping and other arrangements necessary for the resumption of the flow of Iranian oil and oil products to world markets.

EP 1531/72

No. 6

TELEGRAM FROM THE UNITED STATES AMBASSADOR AT TEHRAN TO THE STATE DEPARTMENT CONVEYING DR. MUSADDIQ'S REPLY TO THE "PACKAGE" PROPOSALS HANDED TO HIM ON JANUARY 15, 1953

(Communicated by the United States Embassy on January 18)

(Confidential)

There is set forth below translation of document in Persian language handed to me today by Dr. Musaddiq in reply to "package" proposals which I gave him on January 15.

"Table of Contents."

Concerning the drafts of three agreements attached to the covering memorandum the Iranian Government's position is expressed in four parts:

First.

With reference to the agreement between the United Kingdom and the Iranian Government relating to the method of settlement of the claims of the oil company and the Iranian Government.

Second.

Concerning the exchange of letters attached thereto.

Third.

Concerning the draft of agreement for the sale of oil.

Fourth. Concerning the agreement for the sale to an international company.

Part 1.

Agreement relating to the settlement of claims for compensation to the oil company and of claims of the Iranian Government.

Here follows the Iranian Government's position with regard to the draft of arbitration agreement:

(1) With reference to the three proposals concerning arbitration of the question of compensation and counter claims by all the judges of the International Court of Justice, including the Iranian judge (*ad hoc*) or by a number of them; or in the event neither of these two ways should be practicable, through arbitration by five eminent jurists to be designated by the Vice-President of the International Court of Justice, the Iranian Government has always held the position that in accordance with the principles of international law, Iranian courts are the proper courts to examine such cases. However, inasmuch as this is not acceptable to the British Government and the oil company, and inasmuch as the Iranian Government desires to terminate the oil dispute, it is prepared to have the company's claims for compensation and the Iranian Government's claims settled by a judgment of the International Court of Justice. In case a judgment by the said court should be impeded by the fact that the International Court examines only cases between States, the Iranian Government, to remove this impediment, agrees that the said claims be considered by the International Court with the Iranian Government and the United Kingdom as parties to the litigation, in order that the said court may proceed with examination and judgment in accordance with its own statute and rules of court. The question of arbitration is therefore excluded.

(2) Part I paragraph 2 of the said draft relating to the function of the court is modified as follows:

The Iranian Government agrees that compensation and method of payment thereof by instalments on account of losses caused the oil company as a result of the laws nationalising Iranian oil approved March and May 1951 should be determined in accordance with one of the laws, to be selected by the oil company, nationalising industries in the United Kingdom, enacted and enforced prior to the laws nationalising the Anglo-Iranian Oil Company.

(3) With this arrangement there would therefore be no further need of the provisions of Part II relating to the rules of procedure and other matters with regard to judicial wages, etc.

(4) Part III concerning the draft of agreement for the method of payment of debts and compensation to the company and the Iranian Government is modified as follows:

(a) If in accordance with the verdict of the International Court of Justice, the Iranian Government should be indebted to the company, the method of the payment of instalments should be as follows:

Out of the funds that have accumulated by that date as a result of the deposit of 25 per cent. of the net proceeds of sales of oil in conformity with the law nationalising the oil industry.

By delivery of refined and crude oil under a contract mutually agreed to.

If this would be inadequate for payment of the Iranian Government's debts, so long as the said debts have not been paid, interest shall be payable at a rate to be determined by the I.C.J.

(b) In the event that by verdict of the I.C.J. the company should be found indebted to the Iranian Government and the company should be unable to pay its debts in conformity with the said verdict, it shall pay interest to the Iranian Government as provided in paragraph (a).

(5) Part IV of the draft agreement is agreeable.

Part 2.

Exchange of letters.

With regard to the drafts of letters to be exchanged between the United Kingdom and the Iranian Government following the signature of agreement relating to the settlement of claims, the Iranian Government believes that there is no need for exchanging said letters.

Part 3.

Draft of agreement relating to oil transaction is modified as follows:

Heads of agreement between the Iranian Government and the Government of United States or an American commercial company for sale of oil.

(1) After the agreement is signed between the United Kingdom and the Iranian Government concerning the claims for compensation to the oil company and the Iranian Government's claims to be referred to the I.C.J., the United States Government or an American commercial company shall immediately advance the Iranian Government the sum of \$50 million against the value of Iranian oil products and crude oil which will form the subject of an agreement to be concluded in accordance with the following principles:

* As received.

(2) The Government of the United States of America or an American commercial company, hereinafter to be called purchaser, shall enter into a contract with the Iranian Government or with the National Iranian Oil Company, hereinafter to be called seller, for the purchase of a quantity of Iranian oil products and crude oil equivalent to 65 million dollars.

(3) Of the purchase price of the oil products and crude oil delivered to the purchaser under the said contract, after deduction of 20 per cent. which for the time being is computed as expenses of production, 25 per cent. shall be deposited in escrow in the Federal Reserve Bank of New York to be disbursed in accordance with the verdict issued by the I.C.J. The balance of the purchase price shall be paid by the purchaser to the seller after the contract is signed.

(4) The purchaser and seller shall agree on a schedule of shipments with due regard to the availability and quality of oil products and crude oil which should be shipped according to the schedule, and on the suitability of port, loading and other essential facilities.

(5) The price of refined oil products to be delivered to the purchaser against the above sum shall be the medium (or average) United States Gulf price minus 35 per cent. reduction.

In case it should not be possible to deliver refined products in sufficient quantity, the purchaser shall have the option to take delivery of crude oil for the remainder with the same discount from the present Persian Gulf posted price.

(6) Delivery of oil under the sale contract shall continue until the account of 65 million dollars is liquidated.

(7) This agreement is binding on both parties and both parties agree to work out the details for the implementation of the principles mentioned in this agreement.

Part 4.

Agreement for sale to an international company.

It is agreed that the National Iranian Oil Company shall enter into negotiations with an international company registered outside Iran and the United Kingdom for the conclusion of a commercial agreement relating to the sale of oil products and crude oil in substantial quantities and over a period of years mutually agreed upon. The Anglo-Iranian Oil Company, which exists outside Iran, may also be included in the said international company."

EP 1531/80

No. 7

PROCEDURE TO BE FOLLOWED WITH RESPECT TO THE INITIALLING OF THE DRAFT AGREEMENTS CONNECTED WITH THE IRANIAN OIL PROBLEM

Hon. Walter S. Gifford to Mr. Eden

(Confidential)

Sir,

I have the honor to acknowledge the receipt of your note of January 14, 1953, setting forth your understanding of the procedure which will be followed in Tehran and London with respect to the initialling of the draft Agreements connected with the Iranian oil problem.

In accordance with your suggestion, I last evening communicated to Ambassador Henderson in Tehran the text of your note, together with my confirmation that my understanding of the arrangements accords with that of your own.

Please accept, &c.

WALTER S. GIFFORD.

EP 1531/95

No. 8

AGREEMENT BY THE ANGLO-IRANIAN OIL COMPANY TO THE NEW APPROACH TO Dr. MUSADDIQ

Sir W. Fraser to Mr. Eden

Britannic House,
London.

January 15, 1953.

Dear Mr. Eden,

With reference to the discussions which have been taking place during the past few days in connection with a new approach to Dr. Musaddiq, I write to say that, having regard to the way in which the Persian dispute has developed, my Board is in full agreement with this new approach, which is embodied in the documents which the United States Ambassador in Tehran has been asked to hand to Dr. Musaddiq.

May I also record my appreciation of the opportunities which have been afforded to my Company for full consultation with Her Majesty's Government throughout these discussions.

Yours sincerely,

W. FRASER.

No. 9

ANGLO-AMERICAN PROPOSALS FOR A SETTLEMENT OF THE OIL DISPUTE

(No. 21 Intel. Confidential)

Foreign Office,
January 17, 1953.

Persian Oil

The joint proposals contained three elements:

- (a) Impartial arbitration on claims and counter-claims,
- (b) Opening of commercial negotiations,
- (c) United States financial aid to Persia.

After an interval of three months indications were received through the United States Government that Dr. Musaddiq might be willing to discuss a settlement on terms acceptable to us. Intensive discussions have taken place between him and the United States Ambassador at Tehran, and between Her Majesty's Government and the United States Government, represented by Mr. Byroade in London. The position now is that if Dr. Musaddiq really wants a settlement Her Majesty's Government and the United States Government may be able to conclude agreements with him within the next few days on the following lines:

(a) Arbitration

We have agreed that Mr. Henderson should propose to Dr. Musaddiq that we ask the International Court to decide between three alternatives:

- (i) The Court to constitute itself as an *ad hoc* arbitral tribunal, including the same judges (and not less) as sat in June 1952 to hear the preliminary issue of jurisdiction.
- (ii) The United Kingdom judge and the Persian *ad hoc* judge to select three other members of the Court and so constitute an arbitral tribunal.
- (iii) The Vice-President of the Court (since the President is the United Kingdom judge) to appoint a panel of five arbitrators from outside the Court.

The parties to the arbitration will be the Persian Government and the A.I.O.C. It is provided that the Arbitral Agreement must be signed by Her Majesty's Government. As a last resort we would agree to a signature by "Her Majesty's Government on behalf of the A.I.O.C." (but this is not at this stage being mentioned to the Americans.)

2. The terms of reference for arbitration invite the tribunal to determine the sum required to provide fair compensation to the Anglo-Iranian Oil Company for the loss of its enterprise in Iran and for that purpose to employ the principles applied in determining compensation under any United Kingdom Nationalisation Law which the company may specify; and to determine the validity of all Persian counter-claims and the sum required to meet them. The Company can thus, if they wish, require the Court to apply the principles of the Coal Mines Nationalisation Act of 1946 under which the loss of future profits was taken into account.

3. Commercial Negotiations

We have agreed that there shall be an organisation or company of an international character (to be referred to as the International Company) which would include the A.I.O.C. and be constituted outside the United Kingdom or Persia. An Agreement between the Defence Materials Procurement Agency (D.M.P.A.) and the Persian Government (see paragraph 4 below) will contain a Persian commitment to enter into commercial negotiations for a sales contract with the "International Company" as soon as it is constituted.

4. United States Financial Assistance

The United States are prepared to give Persia \$100 m. by way of advance payment for oil to be delivered to the D.M.P.A. The D.M.P.A. Agreement comes into force simultaneously with the entry into force of the agreement on arbitration and provides for an immediate advance of \$50 m. the remaining \$50 m. will be paid in monthly instalments of \$10 m. beginning when schedule of shipment has been drawn up and when D.M.P.A. is assured as to quantity, quality, and loading facilities. The Persian commitment referred to in paragraph 3 above will enable the United States to withhold the later instalments if Persia is not honouring the Agreement.

5. We hope but are not yet certain that there will be an exchange of letters under which:

- (a) Her Majesty's Government will declare the embargo lifted;
- (b) The Persian Government will undertake not to seize any tugs, dredgers, tankers, etc., belonging to the A.I.O.C. which may have to enter Persian waters before or after the conclusions of the commercial contract. It is, of course, superfluous to provide formally for raising of the embargo, but our Note would provide a convenient way of eliciting the undertaking which we require from the Persians.

6. The latest news is that the United States Ambassador at Tehran had a seven-hour interview with Dr. Musaddiq on January 15 and expects to resume discussions on January 17. If agreement can be secured we shall arrange for our Plenipotentiary to reach Tehran and for the necessary formalities to be concluded as rapidly as possible.

7. The foregoing is for your own information only. My immediately following Intel gives guidance on publicity in the event of settlement being reached.

8. United Kingdom Delegation, New York, please ensure that this is seen at once by B.I.S.

EP 1531/69

No. 10

**TELEGRAM FROM THE UNITED STATES AMBASSADOR AT TEHRAN
TO THE STATE DEPARTMENT REPORTING ON HIS TALK WITH
Dr. MUSADDIQ ON JANUARY 15, 1953**

(Communicated by the United States Embassy on January 18)

(Confidential)

The following message dated January 17 is from Ambassador Henderson.

1. In this message I shall try to give a résumé of my 7-hour talk with Musaddiq on January 15. I shall, in so far as I can, avoid enlarging on the details of that conversation. Nevertheless, I hope that this account will convey a fairly accurate picture of what happened.

2. In the course of the introductory remarks which we exchanged I stressed that I felt that what we were about to do and say are of the utmost importance; the documents which we were to consider were the result of an enormous amount of effort by the United Kingdom Foreign Office, other United Kingdom Government Departments, the United States State Department and the American Embassies in London and Tehran. The texts had been worked out with the thought in mind of conforming with the views which Musaddiq had conveyed to me in the course of our various talks. In places, they might appear verbose but occasionally a considerable number of words are required to describe situations of a complicated nature and to make provision for different contingencies. I suggested that the best manner of proceeding would be to look at all the texts in a preliminary manner and subsequently to make a detailed examination. In the course of the preliminary review, I would, if he so desired, attempt to explain the meaning of any parts which he did not understand or to explain why certain provisions were incorporated.

3. Musaddiq began to examine the texts in the order in which I presented them. He read the Persian text of the covering memorandum slowly and carefully. He said that he was surprised that it mentioned an agreement between the Government of the United Kingdom and the Government of Iran. He stated that he felt he had indicated clearly in the first of our talks that he was unwilling to sign an agreement for arbitration with the Government of the United Kingdom as such. He was willing only to sign with the "former company" or with the Government of the United Kingdom acting on its behalf. I replied that the British Government were aware of his views on this matter; that the British Government had earlier the strong feeling that not only should it be a party to the arbitration agreement but also to the proceedings; that as a concessions to his views it had finally agreed that although the United Kingdom would sign the agreement, the A.I.O.C. would be the party to the arbitration proceedings. I added that it was difficult to adduce sound reasons why the United Kingdom Government should not sign the arbitration agreement. It is the practice in international relations for Governments to sign agreements of this nature rather for a private party to sign with a Government. I knew of no case in which a Government and a private company had negotiated and signed an arbitration agreement to determine the amount of compensation for losses resulting from nationalisation. I understood, for example, that the agreements (garble—in the case of Mexico?) to compensate the British and American companies for losses resulting from the Mexican nationalisation laws had been signed by the interested Governments. The United Kingdom held the conception that, because of its duty to protect the interests of its nationals abroad, it is its responsibility to be a party to an agreement of this nature. Moreover, it is not the custom for Governments to enter into agreements of this kind on behalf of its nationals. It would be very much contrary to practice for it to act as the agents for its nationals in such circumstances. Musaddiq replied that there was no point in continuing if the British continued to take this position. It was impossible for him ever to admit that the British Government was in any way a party to the dispute between the former company and Iran. I made the suggestion that we should go on with our examination of the other texts and leave this issue for the present. We might raise this point with London again if we found ourselves in agreement on the other questions.

4. Musaddiq said he also desired it to be understood that he would not enter an agreement with A.I.O.C. That company did not exist from the point of view of Iran. It would be necessary for the agreement to be with officials of "former company A.I.O.C." I said I was surprised at this, recalling that several times in the past Musaddiq had informed me that the agreement should be with the A.I.O.C. He said that he was certain that he had spoken of an agreement "with the former company." I reminded him that the A.I.O.C. is a company which is registered in the United Kingdom, conducts business in a number of regions of the world, has hundreds of tankers and a large number of refineries and oil wells which can be seen with the naked eye. I expressed the fear that he would cause Iran and himself to appear ridiculous in front of the entire world if he were to insist on phrasing which indicated that in his view A.I.O.C. no longer existed. For his sake I did not want to report back to London and Washington suggestions from him which indicated that the company existed no longer. Our discussion of this point persisted for more than an hour. Finally he said that he would be agreeable to using the following expression in the first reference to A.I.O.C. in each document: "A.I.O.C. Limited, a British corporation operating outside Iran, which shall

hereinafter be called the Company." On January 16 I wrote him a personal letter in which I again referred to this matter and made the suggestion that if he was adamant in refusing to refer to the company simply as A.I.O.C., he agree as a minimum to an expression such as "A.I.O.C. Limited, a British corporation not operating at the present time in Iran".

5. Musaddiq objected to almost every section of the Preamble and Part I of the agreement on arbitration. The majority of his objections were so petty as not to warrant detailed mention. (In particular he criticised the second paragraph in the Preamble which begins with "Conscious" and ends with "parties". He insisted this part should be completely omitted. Without making any particular alteration in their meaning, he also redrafted the first and third paragraphs of the Preamble.)

6. We had one of our longest discussions on a point which we brought up in Part I, paragraph 1, subsection A. He was insistent that if any one of the members of the tribunal died, became incapacitated or withdrew, his successor must be selected unanimously by the remaining members. He said that he was afraid that bribery might result in the withdrawal of judges and the reduction of the panel and that so few judges might remain that they could be corrupted by paying them great amounts of money. He stated that this point had not previously occurred to him but that some means must be provided of protecting Iran against such a possibility. I replied that if it were necessary for a successor to be unanimously selected, one judge alone, the Iranian judge for instance, could bring about a breakdown in the arbitration proceedings. He replied that he would rather have the proceedings break down than that the successor to a member who withdrew should be someone whom the Iranian member had not approved. Another hour was taken up with the discussion of this point. Eventually I felt compelled to let him know that in the event of his continued insistence on unanimity, the arbitration machinery provided by the proposals would be extremely weak and in fact without meaning. If his thinking on this question was fixed, it might be preferable for us to end the conversation and consider that a settlement by arbitration is not feasible. With reluctance he gave up his position and inserted a formula which with some textual changes I think the British would accept. No purpose would be served by describing the formula here.

Part I, paragraph 1, sub-paragraph B. Musaddiq insisted on breaking in two parts, B and C respectively. He made these paragraphs so confusing by his various redrafts that they became practically meaningless. Finally, after a long discussion, he gave up all his redrafts and concluded that the subparagraph was actually not so bad as it was although he did again insist on several changes which I am not including here as he explained that he must reconsider any change he made before giving them to me.

After considerable discussion, he finally concluded that subparagraph C did not require very much redrafting although he did have a few trivial textual changes to suggest.

Part I, paragraph 2 brought his emotions to the peak. He pointed out that what he agreed to accept and the terms of reference presented here were quite different. After much scribbling, he presented the following as being acceptable to him.

"The Function of the Tribunal shall be:

"(1) To determine the sum required to pay the compensation which the company may claim as the result of the Nationalisation of the Oil Industry in Iran in accord with one of the laws of the United Kingdom acceptable to the company enacted for the nationalisation of an industry in the United Kingdom.

"(2) To examine the counter-claims of Iran in accordance with the provisions of British Private Law and to determine the sum required to meet them."

I pointed out to the Prime Minister that I was sure the British Government would refuse to accept the formula and that world opinion would probably consider the British refusal justified. As it soon became apparent that it was useless to try and persuade him to accept the insertion of the words "loss of its enterprise", I proposed that he at least incorporate the words "in accordance with principles for determination of compensation set forth in one of the laws." I explained that his wording was so inflexible that the Court might well experience trouble in applying properly the British law which might be selected. As an example I pointed out it might be almost impossible to determine compensation for the loss of the Iranian oil concession according to British laws nationalising coal and steel. Musaddiq replied that inflexibility was exactly what he was aiming at as he did not want the British to be able to broaden the basis for determining compensation through their lawyer's taking advantage of flexibility of wording. In connection with his phrase "Provisions of British Law" I pointed out that it was quite impossible that British laws might not cover all counter claims which Iran might present. I added that his reference to "British Private Law" might be interpreted as sarcastic and I was sure he would not chance such an interpretation in a serious document. Finally we decided to postpone discussion of the terms of reference for the time being.

Musaddiq saw no need for referring to international law in I paragraph B and wanted to eliminate it entirely.

I explained that paragraph's phraseology had been taken almost verbatim from statute of International Court. British thinking was apparently along lines that as I.C.J. could not arbitrate a case between Government and a private company, they (the British) did want the arbitration panel to be governed at least by the same principles as those which governed the Court. It seems to me his position would be rather weak should he object to the panel being

governed by international law to any less extent than the Court. The purpose of the insertion, he considered, was to generalise or weaken the concept included in paragraph 2, subparagraph 1, above. Should he not agree to the retention in paragraph 3 to the word "international" I pointed out that I thought he would be placing Iran in a rather bad light. We finally decided to come back to the point again later.

On 1, paragraph 4 a few textual changes which proved to be of no substantial significance were made.

As far as the remainder of the arbitration agreement was concerned, he made no suggestion other than to display his displeasure that there was a clause providing interest on some fund due to one party by the other.

In reply to his statement that this was a point which had not been raised before I noted that none the less it appeared both logical and fair. He said he must have a chance to consider the matter further. The exchange of letters he read with a quizzical expression.

After I had explained their purpose, his sole remark was that it was something which could be discussed further after we had studied the Heads of Agreement.

Before commenting Musaddiq read the entire texts of the Heads of Agreement. He said he was willing after raising several questions concerning prices to accept our price for refined products but not for crude. He said he could sell oil at the Persian Gulf prices and he could see no reason why he should have to sell to the United States at a lower price. I explained to him that the price D.M.P.A. was offering for crude was similar to that on the East Coast of the United States, if you took into consideration transport costs, duty and ordinary commercial discounts.

D.M.P.A. was not seeking to purchase crude oil at a bargain. If it could purchase crude oil elsewhere at a particular price it could not as a responsible agency of the United States Government pay Iran higher than that price for such oil. The question would not arise of course if Iran delivered refined products which, after all, D.M.P.A. would prefer to crude. Musaddiq suggested deleting the sentence regarding crude oil. I said it could not be done. If it turned out that Iran could not furnish refined products for some time D.M.P.A. had to have some protection against the loss of its advance in the form of an agreement that crude oil would be furnished by Iran. Musaddiq in evident temper said he would not give away crude oil to anybody at 35 per cent. discount. I pointed out Iran was not losing anything by such an agreement on crude oil. If it were unable to sell products it could produce very large quantities of crude at fairly low cost leaving a handsome profit even if sales were at a 35 per cent. discount. If his concern was with regard to the possible precedent in such a discount perhaps we could put in some formula indicating that the circumstances which led to the 35 per cent. discount were unusual and the price therefore should not be regarded as a precedent.

Musaddiq made it plain that he thought 4½ per cent. interest was exorbitant especially if it had to be paid on the entire \$133 million. I pointed out that interest would be payable only on the amount of the \$100 as might be due to D.M.P.A. by N.I.O.C. Federal Reserve only paid 2 per cent. on Iran's deposits, said Musaddiq, whereas the United States Government required 4½ per cent. interest. I said that this matter was between the two commercial concerns and that it was not between governments. The contract should be on the customary commercial basis even though the organisations were government-owned. Usually there was a 5 per cent. interest rate on D.M.P.A. advances and 4½ per cent. was as low as the rate ever went. N.I.O.C. should expect to get the same kind of treatment as any other company engaging in business internationally. The Prime Minister in real or pretended anger said that he would not enter into such a contract. He would not make a present of Iran's resources even to the United States Government and he certainly would not pay usury. I started to pick up my papers. There was no point talking further, I said, if he thought the United States Government was trying to take advantage of Iran's need for cash advance. We had no desire to pressure him into any kind of a contract which he thought to Iran's disadvantage. Musaddiq said perhaps the contract could be worked out. It seemed to be quite clear and well drawn and it could be discussed again later.

The Prime Minister finished reading the five documents and then said he thought he should study them privately the following day. He thought he would be able on January 16 to let me have a paper stating what he might be able to accept. When I should send in his draft however it should be sent as my ideas rather than his. I told Musaddiq that any document which I sent in as a redraft would be sent only with the understanding that he had assured me that if the British accepted it he would both sign it and give it maximum public support. The Prime Minister said that the interest which the United States Government had taken in the problem was greatly appreciated by him.

EP 1533/7

No. 11

REPORT BY THE STATE DEPARTMENT OF A DEAL BETWEEN ITALY AND POLAND

(1)

*Mr. Eden to Sir Victor Mallet (Rome)**Foreign Office,**January 17, 1953.*

(No. 31. Confidential)

It is reported that the s.s. *Miriella*, a tanker which is on charter to an Italian firm, Supor, in which the Fiat Company have a major interest, is due at a Persian port very soon, perhaps today. According to the Anglo-Iranian Oil Company's representative at Rome, the s.s. *Miriella* will take on a cargo of Persian crude. This transaction is understood to be part of a three-cornered deal whereby Persian oil will go to Poland, Polish coal to Italy and Italian tractors and machinery to Persia. The *Miriella*'s cargo may be taken to Trieste for refining by the Aquila Refinery in which a director of Fiat is known to have an interest. The products would then be transhipped to Poland. Alternatively, it may be taken to Gdynia and refined there.

2. It is most regrettable that this attempt to lift Persian oil should be made when we may be on the point of reaching a settlement with Dr. Musaddiq, under which the A.I.O.C. would formally waive their objections to the sale abroad of Persian oil and oil products. It would be particularly regrettable if the first oil to be lifted as a result of this settlement were to be transhipped to a Soviet *bloc* country.

3. You should therefore approach the Italian authorities immediately and speak on the following lines:—

(a) Her Majesty's Government are concerned at the press reports that this Italian tanker is about to load Persian oil, despite the clear judgment of the Aden Supreme Court in the case of the *Rose Mary*. We trust that the Italian Government will confirm their previous assurances that they will not permit the import of Persian oil into Italy.

(b) As the Italian Government will be aware, Her Majesty's Government and the United States Government have been striving hard to reach a settlement of the oil dispute with Dr. Musaddiq and recent conversations in Tehran may result in such a settlement in the near future. It would therefore be most regrettable if the transactions with the Italian firm operating the s.s. *Miriella* should, at the last moment, give rise to difficulties between the Anglo-Iranian Oil Company and the Persian Government and thus impede an early settlement of the dispute.

(c) It has been reported on good authority that the Italian firm concerned intend to sell the cargo of Persian crude to Poland either in crude form or after refining, possibly in the Aquila refinery in Trieste. Such a transaction, involving the supply of an important strategic material to a Soviet *bloc* country, would be regarded most seriously by the Consultative Group on East-West Trade in Paris and in particular by ourselves and the Americans.

4. In making these representations to the Italian authorities, you should urge them to take whatever action is open to them to cause the Italian firm to order the s.s. *Miriella* to withdraw or to pick up an oil cargo elsewhere in the Persian Gulf.

5. United States Embassy here tell us that your United States colleague has already drawn the Italian Government's attention to reports about supplying oil to Poland and has asked for information about Supor's activities. We understand that the Italian Government's reply does not deny these reports and that he may be instructed to take up the question again. Please keep him informed of your action, and encourage him to support you.

EP 1533/6

(2)

*Sir V. Mallet to Foreign Office. (Received January 18)**Rome.**January 18, 1953.*

(No. 25. Confidential)

Your telegram No. 31: Persian Oil.

Minister and United States Minister made joint representations this morning to the Director-General of Political Affairs, who, although ignorant of the matter, at once gave categorical assurance that no licence would be issued by the Italian Government for transaction of the nature described, which would be wholly contrary to Italian policy. Question of issuing orders to the tanker were more complicated, but he would see what he could do.

Foreign Office please pass to Washington, U.K. Del., Paris, and Trieste as my telegrams Nos. 1, 1 and 1 respectively.

**REJECTION BY DR. MUSADDIQ OF THE ANGLO-AMERICAN
PROPOSALS OF JANUARY 15**

Mr. Eden to Sir Roger Makins (Washington)

(No. 302. Confidential)

My telegram No. 250 [of 20th January] Persian Oil.

At the moment when the new United States Administration assumes office we are faced with important and perhaps critical developments in the oil dispute. Dr. Musaddiq has rejected the proposals put to him on January 15. These were the result of weeks of close consultation between the United Kingdom and United States Governments and full account was taken of the point of view of the United States Government and of what I understood to be Dr. Musaddiq's point of view. Dr. Musaddiq has asked us to consider "counter proposals" which strike at the basis of the position which our two Governments agreed to adopt. While I was glad to be assured that the State Department considered we must continue to work on the basis of the proposals of January 15, it seems to me that the revised drafts which they have submitted for our consideration, together with their comments, in fact amount to meeting Dr. Musaddiq's "counter proposals" on a number of fundamental points. I hope the following paragraphs will make it clear why I regard this as unsatisfactory.

2. In spite of Mr. Henderson's attempt to clarify Dr. Musaddiq's views on January 19 it is impossible to state with any degree of certainty what his present position is. It is abundantly clear however that the effect of his "counter proposals" is to prejudice A.I.O.C.'s right to submit their full claims before the International Court and to reduce almost to nil the prospect of Persian oil industry being re-established on a sound footing. Thus the A.I.O.C. are unlikely to obtain fair and adequate compensation; the United States are in danger of finding that the arbitration which they set out to buy is nothing but a mockery; and neither the United States nor the United Kingdom will have brought any nearer the economic and political stability of Persia which is one of the objectives they have in common. On the other hand they may well have created a situation of restlessness in the Middle East resulting from the spectacle of Persia reaping a handsome reward for her behaviour towards the A.I.O.C.

3. Her Majesty's Government are not prepared to vary their position on points which they regard as fundamental. They, of course, see no objection to Dr. Musaddiq's suggestion that the International Court as such should be asked to adjudicate the question of compensation and that the parties should therefore be the Governments of the United Kingdom and Persia. This is what they themselves have repeatedly urged and they see no virtue in Dr. Musaddiq's abandoning a position which he had himself artificially created. I note that the State Department do not dissent from the view that Dr. Musaddiq's "counter proposals" are unacceptable and that they do not seek to press Her Majesty's Government to make concessions to meet Dr. Musaddiq. It appears, however, from the redrafts which we have been asked to study that the United States wish to go to considerable lengths to meet Dr. Musaddiq's "counter proposals". They have in particular suggested that we should modify the terms of reference for arbitration in a sense still more favourable to Dr. Musaddiq and they seem ready to accept in its entirety Dr. Musaddiq's proposals in regard to sales of oil, both to the Agency of the United States Government and to the projected "International Company". These points are examined in my two immediately following paragraphs. The fact that my criticism does not at present extend beyond them must not of course be taken to imply that I agree with the United States attitude in regard to other points.

4. Dr. Musaddiq has hitherto taken the line that he admits the A.I.O.C. may claim compensation for loss of future profits and that they will be free to do so if they select the Coal Mines Nationalisation Act as a basis for adjudication, but that he is not willing that the wording of the terms of reference should make this fact clear on the face of it. Our draft met his point fully. Now he reverts to the position which he adopted when the Joint Proposals were under discussion and insists on "inflexible" terms of reference which he clearly hopes will prevent the tribunal from entertaining the Company's full claims. To agree now that the words to which Dr. Musaddiq has taken exception (particularly the words "loss of the Company's enterprise in Persia") after what Dr. Musaddiq has said on the subject would gravely weaken the Company's position in claiming compensation for loss of profits under the concession, not only because the altered terms of reference will not be sufficient indication to the Tribunal that they must regard such claims as admissible but also because it would be open to Dr. Musaddiq to plead that he had asked for the omission of the words quoted above (and that Her Majesty's Government had agreed) for the precise reason that he wished the Company's claims to be limited in this manner. Her Majesty's Government have from the outset been ready to accept the risk that an arbitral tribunal might decide on the evidence that claims for future profits under the concession were not fully justified, but they are not prepared deliberately to court the risk of such claims being ruled out as inadmissible under the terms of reference. They cannot therefore agree to the amendment put forward by the United States in accordance with Dr. Musaddiq's wishes.

Foreign Office,
January 23, 1953.

5. Dr. Musaddiq's ostensible reason for reducing his request for United States financial aid from \$100 m. to \$50 m. is that he cannot justify to public opinion the payment of interest in the event of delay in the delivery of oil to the United States Government Agency. His real reason is surely his reluctance to commit himself to enter into commercial negotiations with the "International Company" let alone in a way which would give the United States a means of insisting that he honour this commitment. His suggestion for a separate declaration of readiness to enter into sales negotiations with the "International Company" is inadequate since it does not prescribe a date for such negotiations much less provide an assurance that negotiations will actually take place. I am disturbed by the ease with which the United States seem prepared to withdraw their proposals in the face of Dr. Musaddiq's objection. There was great merit in those proposals. By suggesting a figure as high as \$100 m. they were giving Persia the immediate financial aid which she requires. By parcelling out their assistance in instalments and tying this to a Persian undertaking to enter into negotiations for commercial sales, they were providing tolerable assurance that the A.I.O.C. would receive some compensation and that Persia would derive continuing benefit from the rehabilitation of her oil industry. If the United States concede that the conditions of payment can be changed, they will destroy the essential pattern of their plan for helping Persia and will do so in a way which is most damaging to themselves, to the United Kingdom and to Persia. Her Majesty's Government could never be a willing party to such a transaction. Even if the United States maintain the conditions of payment and reduce the amount to \$50 m., they will involve themselves and Her Majesty's Government in great risks, for it is evident that the smaller the total amount the less the likelihood of a commercial contract materialising (because the greater the likelihood of Persia repaying the advance out of existing stocks and with her own technical resources), and the less the likelihood of the A.I.O.C. receiving compensation and of the United States and ourselves achieving our long term objectives in regard to Persia's well-being. I hope therefore that the United States will give Dr. Musaddiq the obvious answer, namely that investigation has shown that payment of interest can be waived and that the difficulty in the way of Dr. Musaddiq's accepting the advance of \$100 m. (on which he was vigorously insisting less than four weeks ago) was thus removed. If Dr. Musaddiq then insisted on taking only \$50 m., he should be told that this can be agreed, but that in that event the initial advance will be \$25 m. and that the remainder will be paid by instalments of \$5 m. on the same conditions as at present proposed. You will understand that I would regard this second alternative as less satisfactory than that Dr. Musaddiq should be induced to accept the original offer as it stood.

6. The new United States Administration may like to have an account of the ground we have covered in trying to reach a settlement with Dr. Musaddiq. This account will bring out the extent to which we have continuously modified our position in an effort to find an accommodation with Dr. Musaddiq.

7. At the time of the United Kingdom—United States discussion on Persia in November 1951 Her Majesty's Government emphasised four principles which must be safeguarded in any eventual solution of the oil dispute. First, the A.I.O.C. must receive fair compensation. Second, this compensation must be effective, that is to say there must be the assurance that compensation would in fact be paid and that therefore the Persian oil industry would be efficient since it is impossible for her to pay compensation except through the products of that industry. Third, Persia must not obtain better terms as a result of her expropriation of the A.I.O.C. than other Middle East countries who fulfil their engagements under existing oil agreements, nor must she be seen to benefit by her wrongful action in nationalising her oil industry in contravention of her explicit undertaking not to do so. Fourth, there must be no discrimination against the United Kingdom. Under the Joint Proposals of the 30th August the first principle was safeguarded by the provision for reference of the question of compensation to the International Court of Justice on satisfactory terms of reference. As regards the second, Her Majesty's Government did not insist on any explicit assurance that Persia's oil industry would be efficient. They relied instead on the belief that the sanction of the Court's award, combined with a desire on the part of Persia to restore her damaged economy, would result in the oil industry being built up to a reasonable standard of efficiency. The third principle would be safeguarded by the certainty that in negotiating a commercial contract with Persia, A.I.O.C. would be guided strictly by commercial considerations and that the terms of the eventual contract would therefore by definition be no more advantageous to Persia than those of existing contracts to the other countries concerned. The question of the fourth principle would, it was hoped, not arise provided that there was no suggestion that British technicians as such had been excluded.

8. That the Joint Proposals, with all the concessions to Persia which they involved, were rejected by Persia, was due to a number of reasons, political, financial and psychological. Not the least of these was the belief that the United States Government were not firmly behind the proposals and that if the proposals were not immediately accepted, the United States Government would either induce Her Majesty's Government to make further and still more attractive proposals, or would themselves come forward to help Persia out of the financial difficulties. This belief turned out to be fully justified. Before the end of December the United States Government was offering Persia \$100 m. in place of the \$10 m. which they had offered at the end of August. Her Majesty's Government gladly gave their consent to this

increased offer, since the conditions under which the sum in question would be paid seemed likely to facilitate rather than to impede the conclusion of a settlement of the oil dispute within the framework of the Joint Proposals. The proposals of the 15th January however were not only preceded by close consultation between the United States Government and Her Majesty's Government and therefore constituted in the full sense of the word a joint offer, which could only be modified by agreement between them. What is more important, there had also been preliminary discussions with Dr. Musaddiq with the object of ensuring so far as possible that the offer eventually to be made to him should be such as he could reasonably be expected to accept. In this process, repeated concessions were made by Her Majesty's Government not to Dr. Musaddiq but to the United States Government, who believed that without these concessions the offer would inevitably be rejected by Dr. Musaddiq, and who also insisted that it was essential to reach a settlement with him before the 20th January. As a result, the negotiations with Dr. Musaddiq started with Her Majesty's Government in a position which allowed no room for negotiation because no further retreat on their part was possible. They had gone to the furthest limit in regard to the terms of reference for arbitration, and they had even agreed that the commercial negotiations for sales contract should be conducted not by the A.I.O.C. or a subsidiary, but by an "international company" in which the A.I.O.C. would be no more than a participant and which has not yet come into being. They therefore cannot now make further concessions except on points of presentation, since to do so would fatally compromise the principles on which they must continue to insist.

9. Even if Her Majesty's Government were prepared to make further concessions (which they are not) it would seem most unwise to do so, for the following reasons. Dr. Musaddiq has run true to form when confronted with written proposals. If we now go back to him with redrafts which go some way to meet his objections, we shall merely encourage him as in the past, to believe that by maintaining pressure and striking emotional attitudes, he will prevail upon the United States Government to induce Her Majesty's Government eventually to make further concessions even to the point of capitulation to his full demands. The fact that when Mr. Henderson saw him again on the 19th January, Dr. Musaddiq had advanced his demands beyond those which he made on the 17th January in at least two particulars, should surely convince us of the uselessness of such tactics. I am sure that we must on the contrary confront Dr. Musaddiq again as soon as possible with what is substantially the proposals of the 15th January. In the belief that the United States Government will share this view I shall be sending you separately a revised draft arbitral agreement (which to please Dr. Musaddiq I am prepared to call by any other appropriate name) with my comments on the provisions of this draft relating to the arrangements for the discharge of the arbitral award, and also a detailed statement of my views on the provisions which ought to be included in the draft agreement with the United States Government Agency. I consider it very desirable that so far as the arbitral agreement is concerned, the document which Mr. Henderson should have in his hands and eventually present, should be the United Kingdom draft. I am sure that the United States Government would agree that no redraft of the agreement with the United States Government Agency should be presented to Dr. Musaddiq except after full agreement has been reached between our two Governments on this point. Indeed I hope that the United States Government have accepted the view expressed in my telegram No. 250 that Mr. Henderson should not allow himself to be involved in further discussion with Dr. Musaddiq until he has received further instructions after full agreement has been reached between our two Governments.

10. I shall be glad if you will see, in whatever way you think best, that the views in this telegram and in the further telegrams to above, are brought urgently to the attention of Mr. Dulles. You need not await the arrival of those further telegrams before acting on the present telegram.

EP 1016/1

No. 13

SUMMARY OF EVENTS—PERSIA 1952

(No. 15. Confidential)

December 31, 1952.

On January 1, 1952, Persia had experienced eight months of government by Dr. Musaddiq. During that period her great oil industry had been brought to a standstill, her economy had moved from bad to worse and her internal security had deteriorated. Dr. Musaddiq, it appeared, had no intention of reversing his policies merely because they failed and were likely to prove disastrous. But all this had had little perceptible effect on the strength of Dr. Musaddiq's own position in Persia. He was still the idol of the Tehran mobs and able to use this popularity to cow all the politicians opposed to him. During 1952 his increasingly autocratic tendencies and his evident desire to weaken the influence of the Crown and of the legislature in favour of his own bred considerable opposition to him, which came out into the open after his return from The Hague in June. Thereafter it appeared that Musaddiq's opponents, if only they would hang together and act with courage and decision, could have ousted him for good. But the Shah's fatal weakness of character once more ensured a victory for the forces of disorder. Persia suffered the consequences of this weakness and of Musaddiq's extraordinary buoyancy.

2. The British and United States Governments made two more attempts to solve the oil problem. The first, using the intermediary of the International Bank, founded on Musaddiq's intransigence. The second, coming as it did just after Musaddiq had scored a sensational triumph over his domestic opponents, was probably doomed to failure from the start. Its rejection led rapidly to the rupture of diplomatic relations between Persia and Great Britain, a step which seriously impaired the prospect of any settlement of the oil dispute.

1.—January 1–June 24. Stirrings of opposition to Dr. Musaddiq: failure of the International Bank Mission

3. Dr. Musaddiq started the year with considerable assets. He had inspired almost universal, if often reluctant, admiration as the champion of nationalisation: he had his own oratorical ability, the mob support which could be commanded by demagogues like Kashani, Baqai and Makki and the acquiescence of the Tudeh (Communist) Party. But the Parliamentary group committed to his leadership was small and there seemed no reason why he should not, like most Persian premiers, eventually fall out with the Majlis and be forced to resign.

4. Parliamentary opposition although uncoordinated, had in fact increased as his methods became increasingly dictatorial and his policies more obviously unsuccessful. The opposition Press continually attacked him and the New Year found a number of deputies in sanctuary in the Majlis and an interpellation outstanding. Dr. Musaddiq agreed to answer the interpellation on January 22, but eventually instructed his supporters to boycott the Majlis. No quorum could be formed and similar manœuvres prevented any further meeting of the Majlis before February 19 when its term came formally to an end.

5. Meanwhile Dr. Musaddiq proceeded to weaken British influence in Persia by all means in his power. A Note of January 9 alleged increasing British interference in Persian internal affairs and threatened serious action if it did not cease. A further Note of January 12 demanded the closure of all British Consulates by January 21. In spite of repeated representations the Consulates had to be closed. Next, the Persian Government, contrary to established diplomatic courtesy, made public its refusal to accept the Honourable R. M. A. Hankey as His Majesty's Ambassador, on the grounds that he had previously served in Persia. Sir Francis Shepherd, whose appointment to Warsaw had already been announced, left Tehran on January 28 and no successor could be appointed.

6. Dr. Musaddiq continued to block all attempts to solve the oil problem. It had been suggested that a solution might be found in interim management of the Persian oil industry by the International Bank's acting as trustees pending a final settlement. An investigating mission of the Bank visited Abadan. On February 11 a strong team representing the Bank began discussions in Tehran, but reached deadlock on Dr. Musaddiq's refusal to agree to the employment of British technicians. Further discussions merely revealed further differences. Dr. Musaddiq's continued failure to reach a solution alarmed responsible Persian opinion and the Senate demanded to be consulted. Dr. Musaddiq yielded to the extent of allowing direct contact between the Parliamentary Oil Commission and the Bank's representatives. Some progress was made, but a new deadlock followed when Dr. Musaddiq insisted that the Bank could only operate in Persia on behalf of the Persian Government. The basis of the Bank's approach had been that it should act as an impartial trustee for both parties to the dispute and it was this that Dr. Musaddiq now rejected. Discussions were finally broken off on March 15. The Shah expressed his grave concern to Her Majesty's Chargé d'Affaires and his intention of giving Dr. Musaddiq only one more chance. Dr. Musaddiq spoke of balancing an oil-less budget. Despite optimistic propaganda the Persian Government could find no serious buyers for their oil. Preparations continued on both sides for the proceedings which Her Majesty's Government had instituted before the International Court.

7. Although opposition in the Majlis had been largely silenced, the Senate continued to give expression to the increasing dissatisfaction with the Government criticising in particular the financial manœuvres with which it sought to avert economic collapse, its failure to secure an oil settlement and the deterioration of public order. The elections for the Majlis which started on January 26 caused many disturbances. On February 15 a member of the Fida'iyan-i-Islam very nearly assassinated Dr. Fatimi, one of Dr. Musaddiq's right hand men. Complaints to the Senate showed that Dr. Musaddiq was losing the support of the Bazaar, and the Opposition press redoubled its attacks. On March 15 the Senate held a secret session to consider its attitude to the Government: but although it could extract no better answer from the Prime Minister than vague promises and the customary tirade against imperialism, the Senators eventually decided to adjourn for the Persian New Year.

8. On March 28 serious rioting in Tehran and Tudeh attacks on the police illustrated the effect of the Government's leniency towards the Tudeh. The Persian security authorities were well aware of the danger, and prepared to meet it but were hampered by the Government's refusal to authorise any drastic action, and the Party continued to flourish, increasing its penetration of Government Departments, particularly the Ministries of Justice and

Education, and subversion of junior officers and N.C.O.s. of the forces: its newspapers were freely published under transparent cover. But the rioting of March 28 at last impelled the Government to declare martial law in Tehran.

9. The new Majlis opened on April 17, although many constituencies were still unrepresented. The Government had shamelessly rigged the elections, but many of the new deputies, although elected with Government approval, could not be relied on for more than temporary and conditional support. The National Front remained a heterogeneous organisation with no effective party discipline. Dr. Musaddiq himself soon showed his dissatisfaction with the Majlis by claiming that a number of deputies had been fraudulently elected and could be unseated. He obviously meant to intimidate any members who might be thinking of opposing him.

10. This manœuvre was not particularly successful, for the Opposition was able to retaliate effectively by attacking the credentials of Government supporters. In the event only one deputy was unseated, but for a month members of the Majlis squabbled among themselves and had no time to attack the Government. The Senate continued to criticise but never found the courage to pass an adverse vote.

11. On May 28 Dr. Musaddiq left for The Hague to present Persia's case before the International Court. Before doing so he ordered the suspension of all outstanding elections (because of continued difficulty in securing the election of Government candidates), and broadcast a violent attack on the United Kingdom. There followed a period of relative calm, in which public attention concentrated on the proceedings at The Hague and on the detention at Aden of the tanker *Rose Mary* carrying Persian oil to Italy. But opposition to the Government was gaining strength in both Senate and Majlis.

II.—June 24-July 21: Open Revolt against Dr. Musaddiq: its failure

12. On June 24, Dr. Musaddiq returned but his welcome was unenthusiastic despite strenuous organisation. The Shah, emboldened, let it be known that he wished Dr. Musaddiq to fall provided that he himself was not required to push. On June 30 Dr. Imami (the Imam Jum'eh) whose opposition to Musaddiq was well known was elected President of the Majlis. Dr. Musaddiq threatened resignation but the Shah refused to intervene.

13. On July 4 Dr. Musaddiq tendered the Government's traditional, although in this case belated, resignation on the formation of a new Majlis thus presenting an excellent opportunity for his replacement. But the Opposition in the Majlis were still not sufficiently determined and everything depended upon a clear lead from the Shah. Irresolute as ever, he hesitated whether to choose some candidate who would be submissive to his own wishes but too weak to control the situation or Qavam-us-Sultaneh who might be strong enough to govern and whom for that very reason he suspected.

14. On July 5, the Shah encouraged Qavam to prepare to assume power and on the following day instructed the Speaker of the Majlis to obtain a vote of inclination in his favour. The Speaker replied that if a vote were taken before the Majlis had time to consolidate its ranks it would be in favour of Dr. Musaddiq, but the Shah insisted on an immediate vote. He then summoned the Majlis Committee and the Senate Committee, but addressed them in ambiguous terms which were interpreted as a preference for Dr. Musaddiq. Largely as a result of this intervention the Majlis gave Dr. Musaddiq an overwhelming vote of confidence.

15. The Senate was apparently fully prepared to vote against Dr. Musaddiq when it received a categorical intimation that the Shah (no doubt scared by now) wished a unanimous vote in the Prime Minister's favour. Even so, the Senate first refused to vote at all and later, after pressure from the Shah, gave only 14 votes for Dr. Musaddiq with 22 abstentions. Dr. Musaddiq eventually agreed to accept office. At a private session on July 13 he asked for six months' full powers, giving only the vaguest summary of his programme. He also demanded that the Shah give him control of the Armed Forces by making him Minister of War with the right to nominate the Chief of Staff. The Shah, not prepared to sacrifice his prerogatives in relation to the Armed Forces, refused, and Dr. Musaddiq resigned on July 16.

16. Dr. Musaddiq having thus given his opponents a second chance Qavam received a vote of inclination for the Majlis on July 17, but the burst of Imperial courage was short-lived. Protected by his parliamentary immunity, Kashani launched a campaign of denunciation and incited the Army and police to disloyalty. The Tudeh called for demonstrations and a general strike and offered Dr. Musaddiq an alliance to overthrow Qavam. The latter, although inadequately supported by the Shah, who still refused a dissolution of the Majlis, agreed to remain in office. Serious rioting broke out on July 21, and although the security forces maintained the upper hand, these riots finally cowed the Shah, who accepted Qavam's resignation with relief and ordered both the Army and Police to withdraw, leaving the mob in full possession of the town.

17. On the following day the Majlis inevitably voted for Dr. Musaddiq. At the same time the verdict of the International Court, which had been announced on the evening of July 21, became generally known in Tehran. Its decision that it was incompetent to consider the oil dispute was naturally interpreted in Persia as a complete endorsement of her case and crowned Dr. Musaddiq's triumph. The Shah capitulated to his demands, confirmed him in office as Prime Minister, appointed him Minister of War and accepted his nominee as Chief of Staff.

18. The vacillation of the Shah had thus given to Dr. Musaddiq an apparently decisive victory. Neither the Majlis nor the Army could oppose Dr. Musaddiq without the Shah's support and the Shah himself yielded to mob pressure. There now seemed no chance of replacing Dr. Musaddiq by constitutional means: He would now relinquish power only to something or someone more ruthless and undemocratic than himself. The Tudeh had been greatly encouraged, and their chances of power had increased.

III.—July 21—December 31. Renewed attempt to solve the oil problem. Break-up of the National Front

19. Parliament now voted Dr. Musaddiq full powers for six months to enact his "programme of reform". The Majlis passed Government-sponsored Bills, obviously designed to appeal to the mob, confiscating the property of Qavam and pardoning the assassin of General Razmara. But although parliamentary opposition was now silenced, Dr. Musaddiq still faced many difficulties. The economic condition of the country continued to deteriorate. For the first time differences began to appear in the National Front as Dr. Musaddiq's dictatorial methods and administrative failure caused increasing exasperation. A symptom of these differences was the election of Kashani as Speaker of the Majlis on August 7. Dr. Musaddiq had certainly hoped for a less forceful candidate, for he had good reason to distrust Kashani's ambition.

20. Before however any new threat to Dr. Musaddiq could develop, attention was again diverted to the oil problem. Shortly after his return to power on July 22 he had made through Mr. Middleton, Her Majesty's Chargé d'Affaires, a proposal that the oil dispute should be submitted to impartial arbitration. He withdrew the proposal before it could be answered: but on August 7 Mr. Middleton received a Note which contained, at the end of a string of accusations and claims for damages, an offer to discuss compensation. Views were exchanged between London and Washington and a reply to the Persian Note was agreed in the form of a Joint message to Dr. Musaddiq from Mr. Churchill and Mr. Truman. The question of compensation was to be submitted to The Hague Court and that the Persian Government and the Anglo-Iranian Oil Company were to negotiate a resumption of the flow of oil. On these terms A.I.O.C. would do everything possible to move existing oil stocks and would make advances against them to the Persian Government. Her Majesty's Government would relax restrictions on exports to Persia and on Persian use of sterling and the United States Government would make an immediate grant of \$10 million.

21. These proposals were put informally to Dr. Musaddiq on August 27. His first reaction was uncompromising and bitter. They were nevertheless formally delivered and published on August 30. On the same day Dr. Musaddiq published a communiqué asserting that Persia would never accept such proposals and that he would summon the Senate and Majlis to draw up the terms of a reply. On September 7, he laid his detailed objections before the Persian and foreign Press, and at a meeting of the Majlis on September 16 a speech was read on his behalf attacking the A.I.O.C. and Her Majesty's Government, setting out counter-proposals and threatening a rupture of diplomatic relations with the United Kingdom. The Majlis and the Senate gave Dr. Musaddiq a vote of confidence. A formal reply to the Anglo-American proposals was delivered on September 24 in a letter from Dr. Musaddiq to Mr. Churchill with a copy to Mr. Truman. Its terms were in essence an offer to submit the question of compensation to the International Court provided that A.I.O.C.'s claims were limited to the value of physical assets in Persia and excluded loss of profits, that Persian counter-plans were not limited in any way and that the A.I.O.C. paid in advance £49 million convertible into dollars. (This was the sum which would have been due to the Persian Government had the Supplemental Oil Agreement of 1949 been ratified.) The Persian offer was to be accepted without amendment and was to remain open only for 10 days.

22. After consultation, Her Majesty's Government and the United States Government decided to provide further explanations of the joint proposals of August 30, and messages in similar terms from Mr. Eden and Mr. Acheson were delivered to Dr. Musaddiq on October 5. These did not discuss the Persian counter-proposals of September 24 and emphasised that the joint proposals of August 30 had accepted the fact of nationalisation of the Persian oil industry and had not suggested the revival of the A.I.O.C.'s 1933 concession or foreign management.

23. The initial reaction of Persian opinion was comparatively favourable, but Dr. Musaddiq's reply delivered on October 7 demanded that representatives of the A.I.O.C. with full powers should leave for Tehran within a week to discuss the Persian counter-proposals of September 24 and that the company should pay to the Persian Government before they left £20 million out of the £49 million, the remainder to be paid within three weeks. The reply ended with threats of unspecified consequences.

24. Her Majesty's Government's reply was delivered to Dr. Musaddiq on October 14 without any supporting action by the United States Government. It set out Her Majesty's Government's reasons for rejecting the Persian counter-proposals of August 24, repeated the explanations given in Mr. Eden's message of October 5 and formally re-stated, the position of Her Majesty's Government. The latter, it was stated, accepted the nationalisation of the oil industry as a fact and did not seek to revive the 1933 concession; but they claimed just

compensation for the Company, including compensation for the termination of the concession, and considered that this issue should be referred to the International Court. As soon as the terms of this reference could be settled the A.I.O.C. would be ready to open negotiations on the lines of the Joint Anglo-American proposals of August 30.

25. The rupture of diplomatic relations with the United Kingdom now seemed inevitable unless Dr. Musaddiq was dismissed. This however was unlikely, for Kashani, the only person with a chance of supplanting him, was not prepared openly to attack Dr. Musaddiq unless he was certain of success. Moreover, even if he or some politician with his support were successful (such as General Zahidi, now favoured by the Parliamentary opposition) little change of policy was to be hoped for, since Kashani fully supported Dr. Musaddiq on the issues of oil and diplomatic relations with the United Kingdom.

26. Dr. Musaddiq however clearly feared some danger to his position. On September 18 he reorganised the command of the Guard Division in Tehran in order to reduce the chances of a military *coup d'état* and on October 13 he announced the discovery of a plot involving General Zahidi and Her Majesty's Embassy. General Zahidi defended himself successfully, but the manœuvre made it the more certain that no one would oppose Dr. Musaddiq in the rupture of diplomatic relations with the United Kingdom.

27. The Shah and the United States Ambassador urged moderation, but on October 16 Dr. Musaddiq stated publicly that diplomatic relations with the United Kingdom were now futile. The Tudeh and Kashani clamoured for a rupture and all speakers in the Majlis on October 19 and 21 urged Dr. Musaddiq to take the plunge. His decision was never in serious doubt and the formal communication breaking off diplomatic relations reached Mr. Middleton on October 22. He and the Embassy staff left on November 1, the Embassy premises and the protection of United Kingdom interests in Persia being entrusted to the Swiss Legation. The Swedish Government assumed the protection of Persian interests in the United Kingdom.

28. Even before he had succeeded in breaking off diplomatic relations, Dr. Musaddiq caused his supporters to attack the Senate which had consistently opposed him and provided much of General Zahidi's support. On October 24 the Majlis passed a Bill closing the current session of the Senate and reducing its legislative term to two years. The Shah wrigg'd but as usual capitulated.

29. Dr. Musaddiq suppressed further obstacles in his path by dissolving the Supreme Court of Appeal and the Disciplinary Court and retiring a number of senior officers. But he was now faced with more serious differences within the National Front and showed signs of realising how serious a threat the Tudeh had become. Amid general criticism of the Government in the Majlis, Dr. Baqai, hitherto one of his prominent supporters and leader of the semi-fascist "Toilers' Party" declaimed against the new internal security law which forbade demonstrations and strikes in Government Departments and was primarily directed at the Tudeh. By the end of November Ministers were refusing to attend the Majlis which, they considered, had insulted them; Kashani, as Speaker, refused any apology. On December 4 the Majlis gave Dr. Musaddiq a vote of confidence, but further differences soon arose over Government appointments, to senior posts in the oil industry and the Customs Police, of competent officials with no nationalist background. Dr. Baqai and his supporters again violently criticised the Government and Makki resigned from the National Iranian Oil Company. On Christmas Day there were violent scenes in the Majlis and although Kashani was absent his followers attacked the Government. Dr. Musaddiq was thus in serious conflict with three men who had previously done much to support him in power.

30. Meanwhile the election of a new Administration in the United States gave the Persian Government fresh hope and they redoubled their pressure on the United States Government making particular play with threats of a Persian collapse into communism. The United States Government tentatively suggested to Her Majesty's Government proposals for an oil settlement which would have abandoned the joint Anglo-American proposals of August 30. They issued on December 6 a statement which pointed out that the United States Government had no legal powers to prevent purchases of Persian oil by United States companies, but also that such small sales of oil were no substitute for an overall settlement of the oil problem, and might lay purchasers open to legal proceedings elsewhere. Her Majesty's Government and the United States Government finally agreed to propose a "package deal" which was in fact a refurbished edition of the earlier Joint Proposals. The United States Ambassador began discussions with Dr. Musaddiq in the last week of December. Dr. Musaddiq at first agreed both that loss of future profits could be taken into account in fixing compensation to the Anglo-Iranian Oil Company and that the sale of oil to an international company could be negotiated on commercial terms. But before the year ended he was already showing signs of returning to his previous intransigence.

31. During the last two months of the year economic deterioration inevitably continued. The Government were able to meet immediate liabilities only by a large and secret increase in the note issue. Internal security remained highly precarious. Despite the passage of a new and more stringent Press law at the beginning of December, Tudeh newspapers continued to appear and the Party's prospects inevitably improved as Persia approached steadily nearer to economic and administrative collapse.

IV.—Foreign Affairs—General

32. The year's events had left little time for interest in Persia's relations with countries other than the United Kingdom and the United States. The patience of the United States Government was strained by Persian ingratitude, the consistently anti-American tone of much of the Persian Press, difficulties over the United States Military Mission and bitter attacks on the "Point IV" organisation. Reasonably cordial relations were preserved only by the determination of the United States Government to find some solution to the oil problem. For the rest only relations with the U.S.S.R. were in any way connected with the main current of events. Many Persians were instinctively attracted to the traditional policy of balancing the Soviet Union against Great Britain. There were inevitably persistent rumours of a rapprochement with the U.S.S.R., but Dr. Musaddiq was too cautious to move far in that direction; and the Soviet Government made no serious move, presumably being content to wait for Persia's collapse from within. Gratuitous rudeness and the revival of old territorial claims appreciably worsened Persia's relations with her immediate neighbours, particularly Iraq.

Eastern Department,
Foreign Office.

December 31, 1952.

EP 1531/132

No. 14

TELEGRAM FROM THE UNITED STATES AMBASSADOR AT TEHRAN TO THE STATE DEPARTMENT REPORTING HIS CONVERSATION WITH DR. MUSADDIQ ON JANUARY 28

(Communicated by the United States Embassy on January 29)

(Confidential)

This evening Musaddiq asked if I could come see him. I went immediately accompanied by Saleh, my Iranian assistant. Our conversation lasted approximately 24 hours. I told him I had not visited him for several days because I had been waiting fresh instructions from Washington. In view of change of administration entire United States position was being reviewed in light of our various conversations.

2. Musaddiq said he had assumed that change of administration might cause recess in our conversations. In our last talk I had told him that I thought it would be difficult for Court to adjudicate question of Iranian compensation to former company by strict application of British law nationalising coal or any other industry. He had subsequently examined coal nationalisation law and had concluded I was right. Law was complicated and difficult to understand. It contained many provisions which had no relationship whatsoever to Iranian Oil problem. He and his advisers now believed it would not be practicable for Court to apply law this kind to present dispute. They therefore wished to amend suggestions which they had made previously. He handed me document in Persian, translation of which contained next paragraph.

3. "(1) The Iranian Government accepts judgment by the I.C.J. with regard to 'property and establishments' of the Oil Company in Iran on the basis of any one law relating to nationalisation of industries in England which would be acceptable to the Company.

"(2) In case this proposal is not agreeable to the Oil Company, the Company may determine which one of the laws relating to nationalisation of industries it would like to have as basis of the judgment by the I.C.J., and it may also specify the principles of such law which are agreeable to the Company as the basis of judgment, in order that the question may receive consideration.

"(3) Inasmuch as it may take a long time to refer the case to the judgment of the I.C.J. and obtain a result (and whereas) the Iranian Government would like to settle the difference as soon as possible, the Iranian Government desires the Oil Company to name the amount of compensation to which it considers itself entitled (regardless of Iran counter-claims). Perhaps the question of compensation can be settled by direct negotiation and without reference to the Court".

4. Saleh translated this document aloud paragraph by paragraph. At end first paragraph I asked Musaddiq if I was to understand he now wished terms of reference expressly to limit compensation to "property and establishments" of Oil Company in Iran. He replied in affirmative, adding that in any event coal nationalisation law not applicable to situation in Iran. In England owners of mines had title to them. In Iran former company did not own any land or subsoil minerals. It owned merely certain physical property above ground and had right to exploit and refine oil. Iran willing to permit Company to claim compensation for losses of physical property above ground but not for loss of rights to exploit or refine. If

Iran should be willing to agree to pay compensation for loss of such rights that would mean that it would be agreeing to pay compensation for loss of future profits. Iran could not do that.

5. I reminded Prime Minister of Sinqet* four previous conversations. He had explicitly told me that he would be willing to permit Arbitration Board to settle question compensation on basis any British law nationalising a British industry acceptable to former company; and that in answer to questions put by me he had stated that such basis for settlement would be agreeable to him even though British law selected would provide for payment to former owners of compensation for loss of future profits. It was on basis this statement to me that our present conversations had been inaugurated. He said he did not remember making such statement to me. We had discussed many things. He thought however he had always made it clear that Iran would not agree to any arrangement which might involve payment of compensation for loss future profits. In any event, he had emphasised throughout our talks that anything he might say was subject to approval of Majlis. He was convinced from talking with his advisers that Majlis would not agree to any formula which might make it possible for British to claim compensation for loss of future profits. I told Prime Minister that if that was his position, I feared all our conversations had been in vain. I was convinced, as I had told him in conversation of December 25, that British could not accept terms of reference which would limit compensation to losses resulting from confiscation of physical property of Company in Iran. I was sure that whole business world would consider that Company was right in insisting that in determination of compensation, losses of future profits should be given consideration. If his position as now outlined to me should be conveyed to British our conversations would probably be terminated.

6. Musaddiq indicated considerable distress, maintaining he anxious for settlement. He suggested that second paragraph of document be translated before further discussion. This paragraph might serve as alternative if first paragraph unacceptable. Saleh translated second paragraph. I said I did not think it would serve any useful purpose for Company to specify principles of any British law as suggested in this paragraph since Musaddiq had already made it clear that he would not accept any formula which would make it possible for Company to claim compensation for other than physical property in Iran. Prime Minister said he did not see why presentation of this document would mean termination of conversations. If British did not like suggestions contained in it they could give counter-suggestions. I said British had already presented their formula in proposals which I handed him on January 15th. He had not really replied to British formula. Instead he was proposing new formulae which had no real resemblance to suggestion of British. Musaddiq asked that third paragraph be translated. I told him that this paragraph, if given consideration, would transfer our conversations into area which I not in position to enter. Both British and Iranian Governments had indicated their agreement for United States to carry on conversations in an endeavour achieve oil settlement on basis international arbitration or adjudication of question of compensation. Paragraph 3 seemed to suggest discussion of lump sum settlement. I had no authority discuss this kind of settlement. I would submit document in question to United States Government but in doing so I would inform it that I had told him I unable to discuss suggestions of kind contained in paragraph 3.

7. Musaddiq reverted to paragraph 2 of document. He said he would be willing to consider principles involving compensation for loss of future profits provided he was sure that amount to be claimed would not be exorbitant. His advisers had told him that Majlis would never agree to oil settlement involving risk even though remote that Court might find Iran liable to pay compensation for loss of profits amounting to £150,000,000 annually for 32 years. I tried to convince him his fears groundless. Judges of Court were reasonable men not likely hand down decision so ridiculous. He insisted that risk existed. If British would let him know what was maximum amount which it would claim he might agree, if that amount was not too exorbitant, that Court could adjudicate claim with terms of reference including compensation for loss of future profits. If British desired to know size Iran's claims he would be willing give it in return.

8. I told Musaddiq I disappointed that we seemed so rapidly to be approaching deadlock. I had entertained hopes that settlement might be achieved on a basis which would leave Iran master of its own oil industry, would offer Iran opportunity sell oil abroad on commercial basis, would afford guarantee Iran would not be saddled with burden indebtedness greater than it could bear, which would provide Iran funds to meet its financial needs until oil revenues would again begin to accrue. Musaddiq said I had failed in one respect. I had not been able to guarantee that Iran would not be saddled with burden of indebtedness greater than it could bear. I said if Iran would be called upon to pay its indebtedness only from 25 per cent. of proceeds derived from sale of oil, burden would not be unbearable. Unfortunately Iranian Government apparently was not willing even to bear this relatively light burden. Musaddiq said it might be willing to bear such burden if it knew number of years involved. Over how many years would Iran be expected to pay? I said that would depend upon judgment of Court. Musaddiq said on a basis of this kind it would not be necessary to go to Court. He would be willing to present to Majlis agreement whereby for certain number of years Iran would pay in settlement compensation 25 per cent. of gross proceeds from its oil

export. Only question to be settled was number of years. That could be settled in conversation of one hour if British were agreeable. Difficulty with lump sum method would be to satisfy public opinion in Iran and United Kingdom. Method of definite number of years but indefinite global amount would be much easier to sell at least to Iranian public. Another advantage of this method would be that Company would in sense become partner of Iran. Both would want to sell as much Iranian oil as possible. I told Musaddiq I unable discuss this kind of settlement with him. I could only discuss settlement based upon international arbitration or adjudication of compensation.

9. Musaddiq said he hoped some way could be found to prevent termination of conversations. It was important not only to Iran but to world that dispute be settled. I repeated in view of position which he had this evening assumed I could, for moment at least, see no way avoiding deadlock.

10. My tentative comment. I do not think that Musaddiq could have failed to realise that decision of himself and advisers that terms of reference must be worded so as to limit compensation to loss of physical property of Company in Iran would destroy all possibility of settlement of compensation by international arbitration or adjudication. He hoped, therefore, to be able to shift conversations to another basis, that of reaching agreement on lump sum to be paid as compensation or preferably on definite period of years over which Iran would pay 25 per cent. of gross proceeds from oil exports as compensation.

No. 15

TUDEH PARTY ACTIVITY

Sir R. Makins to Mr. Eden. (Received January 31)

(No. 75. Saving. Confidential)
(Telegraphic)

Washington,
January 29, 1953.

In a telegram dated 19th January to the State Department, the United States Embassy in Tehran, in a review of Tudeh activity, reports that a group of twenty-four Tudeh activists from Tehran had been convicted under the new public security law for being involved in an anti-Shah demonstration on the occasion of the Shah's birthday. Sentences varied from three months' to one year's forced residence on an island in the Persian Gulf. A group of Tudeh activists from Isfahan was similarly sentenced. Tudeh lawyers are continuing their efforts to obtain the release of the convicted men. Despite these sentences, Deputy Baqai has recently been attacking the judiciary for having been lenient with the Tudeh party and for having released some of the more important Tudeh leaders. The present attitude of the newly appointed Director-General of the Ministry of Justice, Manuchehri, is not known but in 1946 he told an employee of the United States Embassy that he was a Communist and "all roads lead to Communism".

2. Tudeh line newspapers, despite a lack of qualified personnel and police interference continued to appear regularly. The official Tudeh organ, *Mardom*, however, failed to appear during the latter part of December; the United States Embassy has no information as to the reason for this.

3. Tudeh line newspapers have recently shown signs of increasing the intensity of their attacks against Point IV and the American military advisers. Since the recent Prague trials, the Jewish-American Joint Distribution Committee has also been the target of attacks.

4. There are signs of increasing dissension and dissatisfaction within the ranks of the Tudeh party due to demands on the time of its members and the financial contributions required. There is also dissatisfaction at the failure of the party to bring about positive improvements in the living standards of the workers as well as lack of protection from the activities of the security forces and anti-Communist groups. Sources close to the Chief of Staff, Baharmast, report that he is taking great interest in the Tudeh party apparently as a result of having been alerted by Dr. Musaddiq to the potential dangers provided by the Communist movement.

No. 16

ANGLO-AMERICAN PROPOSALS OF JANUARY 15 : CHANGE OF POSITION BY DR. MUSADDIQ

Foreign Office to Sir R. Makins. (Washington)

(No. 440. Confidential)

(Telegraphic)

Your telegram No. 184 and previous connected telegrams.

I was about to ask you to give the State Department my comments on the United States Memorandum which was received on the 28th January. These comments would have shown what I regarded as points of substance and how strongly I felt that no further concessions could be made. They also would have shown that we were very ready to consider how other points could be presented in a form in which Dr. Musaddiq could more easily accept them. In view of Mr. Henderson's report of his conversation with Dr. Musaddiq on 28th January (which you will have received from the State Department) we must clearly take fresh stock of the situation.

2. I do not wish to say "I told you so", but I think the United States must agree that the latest news from Tehran shows that we were right in insisting on making the proposals which we put to Dr. Musaddiq as watertight as possible. It also makes it clear that if there is a deadlock this will not be because Her Majesty's Government have been excessively rigid in their attitude but because Dr. Musaddiq has withdrawn from the position on which the whole of the proposals of 15th January were based.

3. I admire the way in which Mr. Henderson took issue with Dr. Musaddiq on the question of the right of Her Majesty's Government to claim compensation for loss of future profits. As Mr. Henderson pointed out it was solely because Dr. Musaddiq had, on 25th December, agreed that this claim could be made that it was possible for him to put forward the proposals of the 15th January.

4. It is also very satisfactory that Mr. Henderson should have refused to be drawn into discussion on the possibility of compensation being assessed by any other method than impartial arbitration.

5. There now seem to be two possible courses of action open.

6. (a) The course I should much prefer is to take no further action with Musaddiq, and leave it to him to come towards us. If he did that, we and the United States would listen to what he had to say. This would place us in a good bargaining position and there would be a much better prospect of reaching agreement on the January 15th proposals. For your own information the danger seen here to this course is that as time went on the United States Government might, despite what you say in paragraph 1 of your telegram under reference, become impatient again and press us to consider a fresh approach on an entirely new basis. In that event they might even revert to the idea of lump sum compensation to which, as was explained in my telegram No. 5300 Her Majesty's Government see strongest objection. I hope it will not be necessary for you to become involved in further discussion on this latter point, but if this is inevitable I suggest you confine yourself to the arguments that, from the point of view of discouraging other countries from following Persia's example, the threat of international arbitration on loss of profits is the most powerful deterrent.

7. (b) Mr. Henderson might try to bring Dr. Musaddiq back to considering the proposals of 15th January. I do not mean that Mr. Henderson should produce any new documents. The more documents we give Dr. Musaddiq the greater the danger of his publishing them in the event of a breakdown, and the greater the danger that no future Persian Government would be willing to resume where Dr. Musaddiq had left off. Mr. Henderson could ask Dr. Musaddiq to forget their conversation of 28th January and to address himself to the proposals of the 15th January which were a fair and reasonable offer. Mr. Henderson would have to explain that these proposals must be taken as a whole, and sprang from Dr. Musaddiq's acceptance of the principles of international arbitration and a claim to compensation for loss of profits. He would make it perfectly clear that he was not authorised to discuss proposals on any other basis, though pure points of drafting would be a matter for discussion and mutual accommodation.

8. Unless you see objection please approach the State Department accordingly, making clear my strong preference for course (a). I have told the United States Chargé d'Affaires that since Mr. Byroade is no longer here I would prefer to negotiate with the United States Government through you. We will, of course, take full advantage of contacts with the United States Embassy here, particularly on technical points.

9. In case you think it would help you to show the State Department that we had been working on the United States Memorandum I will send you my comments on it in my immediately following telegram, revised in the light of the latest developments.

10. Since this telegram was drafted, I have received your telegram No. 201 [of 30th January]. I will comment later, but would prefer you meanwhile to go ahead on the lines indicated above.

EP 1351/3

No. 17

CASPIAN FISHERIES AGREEMENT BETWEEN THE SOVIET UNION AND PERSIA

(Received February 9)

Moscow.

February 3, 1953.

On October 1, 1927, an Agreement on the exploitation of the fisheries of the southern shore of the Caspian Sea was concluded between the Government of the USSR and the Government of Iran. In accordance with this Agreement there was then established a mixed Soviet-Iranian Company "Iranryba". The period of activity of the "Iranryba" Company was set at 25 years by said Agreement. The Agreement envisaged also equal shares of the Iranian Government and of the Soviet Government in the capital of the Company and equal rights in the administration of this Company's affairs. Thus, the Agreement of October 1, 1927, was concluded on the basis of full equality of rights of the parties and respect for the State sovereignty of Iran and the national interests of the Iranian people.

In connection with the fact that on January 31, 1953, the period of activity of the "Iranryba" Company came to an end, the Soviet Government introduced a proposal for prolongation of the work of the Company for a further period.

On January 29 Musaddiq, Prime Minister of Iran, announced to the USSR Embassy in Iran that the Iranian Government had decided to terminate the work of the Company in view of the expiration of the period envisaged by the Agreement.

At the same time the Iranian Government stated that it will observe completely the obligations it assumed in connection with Article 4 of the Soviet-Iranian Agreement of 1927, which provides that the Iranian Government, in case of non-resumption of the work of the "Iranryba" Company, obliges itself not to give the fisheries as a concession for the course of the following 25 years to third States or their subjects. It obliges itself to exploit them exclusively through the appropriate organs of the Iranian Government and on its part not to invite other specialists besides Iranian subjects for exploitation of these fisheries.

In connection with the decision of the Iranian Government to terminate the work of the "Iranryba" Company, the USSR Ambassador in Iran, Comrade Sadchikov, on instructions of the Soviet Government, on February 2 presented to Musaddiq, Prime Minister of Iran, a letter of the following content:

"Mr. Prime Minister,

"In connection with your communication to the effect that the Iranian Government, in view of the expiration on January 31 of this year of the period of work of the mixed Soviet-Iranian Company 'Iranryba', has decided not to resume the work of this Company, I have been instructed to state the following:—

"The Soviet Government, in introducing its proposal for prolongation of the work of 'Iranryba' for a further period, proceeded from the fact that the work of the 'Iranryba' Company, which is profitable for both countries, facilitates the development of economic cooperation and the maintenance of friendly relations between Iran and the Soviet Union. Being direct participants in the 'Iranryba' Company, the Iranian Government and the Soviet Government possess equal shares in the capital and equal rights in the administration of this Company's affairs.

"The Iranian Government has received considerable material advantages from the work of the 'Iranryba' Company. It received 64 per cent. of all the 'Iranryba' Company's income in the nature of profits, and also in the nature of rent payments for the fisheries and taxes paid by the Company to the Iranian Government. During all the time of its existence the 'Iranryba' Company has exerted a favourable influence on the development of the economic life in the northern maritime regions of Iran and has secured the means of existence for a considerable part of the population of these regions.

"The Iranian Government, in deciding not to resume the work of the 'Iranryba' Company in view of the expiration of the period of its activity, has taken advantage of its legal right envisaged by the Agreement on 'Iranryba' concluded in 1927 on the basis of full equality of rights of the parties and respect for the state sovereignty of Iran and the national interests of the Iranian people.

"The Soviet Government takes note of the communiqué of the Iranian Government on the above-mentioned decision concerning the 'Iranryba' Company.

"The Soviet Government considers it necessary to note the important significance in the cause of further strengthening the good-neighbourly relations between Iran and the Soviet Union of the fulfilment by the Iranian Government of the obligations contained in Article 4 of the above-mentioned Agreement. As is known, in this article it is provided that 'The Persian Government takes upon itself the obligation, in case of non-renewal of the Company's concession, not to give these fisheries as a concession for the next 25 years to third states or their subjects. It obliges itself to exploit them exclusively through the appropriate organs of the Persian Government and on its part not to invite other specialists besides Persian subjects to exploit these fisheries'.

"The Soviet Government also takes note of your statement to the effect that the Iranian Government will observe completely the obligations assumed by it in connection with Article 4 of the Soviet-Iranian Agreement of 1927.

"In connection with the decision of the Iranian Government on termination of the work of the mixed Soviet-Iranian 'Iranryba' Company, and bearing in mind the execution of measures for liquidation of the 'Iranryba' Company and for division of its property equally between both parties, as has been provided for by Article 4 of the Soviet-Iranian Agreement on exploitation of the fisheries of the southern shore of the Caspian Sea between the USSR and Iran of October 1, 1927, it is now necessary to form a Soviet-Iranian Liquidation Commission. The Soviet Government has given the USSR Ambassador in Iran appropriate instructions on this question. The Soviet Government expects that the Iranian Government on its part will not delay in appointing its representatives to said Liquidation Commission.

"I request you, Mr. Prime Minister, to accept assurances of my highest esteem.

I. SADCHIKOV."

THE CASPIAN FISHERIES

Persian Note to the USSR

The text of the Persian Government's Note to the Soviet Government intimating that the Caspian Fisheries Agreement was not to be renewed was broadcast by Tehran radio on 31st January; it ran as follows:—

"The Imperial Persian Ministry of Foreign Affairs presents its compliments to the Embassy of the USSR and, in reply to Note No. 106, dated 24th October, 1952, concerning agreement on the date of expiry of the agreement of 1st October, 1927, regarding the southern Caspian shores fishing which was fixed for 31st January, 1953, respectfully states that, because the date of the expiry of the agreement is today and because the Company automatically dissolves, you are requested, acting on this aide memoire, to arrange for the appointment of representatives of the Soviet Government to settle the Company's assets and affairs and to present them to this Ministry, so that they may be forwarded to the authorities concerned.

"You are informed in conclusion that the Imperial Government of Persia will endeavour to fulfil the provisions of the last part of Article 4 of the agreement." (Tehran 11.40, 31.1.53)

The Soviet Statement on the Caspian Fisheries

The text of a statement issued by the USSR Ministry of Foreign Affairs on the termination of the Persian-Soviet fisheries agreement was published by Tass as follows.

In the USSR Ministry of Foreign Affairs.

On 1st October, 1927, an agreement was concluded between the Governments of the USSR and of Persia on the exploitation of the fisheries of the southern coast of the Caspian Sea. In conformity with this, a mixed Soviet-Persian company, "Iranryba," was formed to operate for 25 years. The agreement also provided for equal shares as between the Persian Government and the Soviet Government in the Company's capital, and equal rights in the management of the Company. Thus the agreement of 1st October, 1927, was concluded on the basis of the complete equality of the contracting parties, and of respect for Persia's State sovereignty and for the Persian people's national interests.

In connection with the fact that on 31st January, 1953, the period of the "Iranryba" Company's activities expired, the Soviet Government proposed an extension of these activities. On 29th January, the Prime Minister of Persia, Dr. Musaddiq, informed the Soviet Embassy in Persia that the Persian Government had accepted the decision on the termination of the Company's activities in view of the expiration of the period envisaged by the agreement.

The Persian Government stated accordingly that it would observe fully the obligations accepted under Article 4 of the 1927 agreement not to grant for a further 25 years fishery concessions to any other State or to the subjects of any other State, in the event of the non-renewal of the activities of the "Iranryba" Company. It undertakes to exploit the fisheries only through the appropriate Persian Government organs and not to invite any experts other than Persian subjects to exploit these fisheries.

In connection with the Persian Government's decision to suspend the activities of the "Iranryba" Company, the USSR Ambassador in Persia, Comrade Sadchikov, on 2nd February handed Dr. Musaddiq the following letter in accordance with the Soviet Government's instructions:—

"Prime Minister,

In connection with your statement to the effect that the Persian Government, in view of the expiry on 31st January of this year of the period of the activities of the Mixed Soviet-Persian "Iranryba" Company, has adopted a decision not to renew the activities of this Company, I have been instructed to state the following.

"The Soviet Government, in submitting its proposal to continue the 'Iranryba' Company's activities, proceeded from the view that the activities of 'Iranryba,' being beneficial to both sides, promote the development of economic cooperation and the maintenance of friendly relations between Persia and the Soviet Union. Being the direct participants in the 'Iranryba' Company, the Persian Government and the Soviet Government have equal shares in the capital and equal rights in the administration of this company.

"The Persian Government has received considerable material benefits from the activities of the 'Iranryba' Company. It received 64 per cent. of the Company's income in the form of profits, rents for the fisheries, and taxes paid by the Company to the Persian Government. During the whole period of its existence, the 'Iranryba' Company exerted a beneficial effect on the development of the country's economic life in Persia's northern coastal areas and ensured a means of existence for a considerable part of the population of these areas.

"In accepting the decision not to renew the activities of the 'Iranryba' Company in view of the expiry of the period of its activity, the Persian Government has exercised its legal rights, as envisaged by the 1927 agreement which was concluded on the basis of the complete equality of rights of the contracting parties and respect for Persia's State sovereignty and the national interests of the Persian people.

"The Soviet Government takes cognisance of the Persian Government's statement on the above decision with regard to the 'Iranryba' Company.

"The Soviet Government considers it necessary to note the importance, in the cause of the further strengthening of good neighbourly relations between Persia and the Soviet Union, of the fulfilment by the Persian Government of the obligations contained in Article 4 of the above agreement. As is known, this article provides that 'the Persian Government undertakes, in the event of the non-renewal of the Company's concessions, the obligation not to grant these fisheries as concessions for the next 25 years to other States or their subjects. It undertakes to exploit them exclusively through the appropriate organs of the Persian Government and, on its own part, not to invite for the exploitation of the fisheries any experts other than Persian subjects'.

"The Soviet Government also takes cognisance of your statement that the Persian Government undertakes to observe fully the obligations it accepted under Article 4 of the Soviet-Persian agreement of 1927.

"In connection with the Persian Government's decision on the termination of the activities of the Mixed Soviet-Persian 'Iranryba' Company, and having in mind the measures for the liquidation of the 'Iranryba' Company and for the equal sharing of its property between the two sides, as provided for by Article 4 of the Soviet-Persian agreement of 1st October, 1927, on the exploitation of the fisheries of the southern shore of the Caspian Sea, it is now necessary to form a Soviet-Persian liquidation commission. The Soviet Government has given the Soviet Ambassador in Persia appropriate instructions on this question.

"The Soviet Government expects that the Persian Government, for its part, will not delay the appointment of its representatives for this liquidation commission.

"Please accept, Prime Minister, my assurances of my high regard.

(Signed) I. Sadchikov." (Tass 2.2.53)

No. 18

UNITED STATES VIEWS ON TWO ALTERNATIVE MOVES

Sir R. Makins to Mr. Eden. (Received February 11)

(No. 288. Confidential)
(Telegraphic)

Washington,
February 10, 1953.

My telegram No. 235: Persian oil.

Bedell Smith asked me to call this afternoon. Byroade, Linder and Nitze were present. Byroade said that a telegram had been sent to the United States Embassy in London giving their views on two alternative moves. The United States Embassy in London would make these available to you together with the necessary texts. Dulles will wait for your observations before he makes up his own mind.

2. State Department feel that decisive stage has now been reached and they must either:

(a) withdraw from the negotiations or
(b) put forward final document containing variation of paragraph 3 of part II of compensation agreement, limiting the period of payment of compensation on the lines of my telegram No. 201.

3. They did not feel that this would necessarily lead to a solution. Indeed they were far from optimistic. But they thought that this would be a much better ground on which to break and put us both in a stronger position to deal with Persian reactions.

4. Before you turn this proposal down they beg you to take account of a new factor in the situation. This is the rapid easing of the tanker position and they said a weakening of the crude price at Tripoli. They reckon that Musaddiq may have no difficulty in carrying out his threat of selling Persian oil at a discount of 50 per cent. They calculate that even without a discount of this size at the new low tanker rates Persian oil could still be sold in any United

States market including West Coast at a profit. They understand our objection to a settlement with Persia which might undermine the arrangements with other oil-producing countries but they believe that the undercutting by Persia of world wide marketing arrangements might in the long run have even more serious consequences.

5. I said that as these considerations had been put to you in London I would not comment. But I thought you would be reluctant to contemplate course (b) on the grounds that it would open up prospects of further interminable bargaining with Musaddiq in the course of which the present proposal would be further nibbled away. (Bedell Smith sees this point clearly.) I asked whether they were prepared to put the proposal forward as a firm and final one. They replied that subject to Dulles' view that would certainly be firm as far as the term of years was concerned. In their opinion the only further room left for negotiations would lie in the 25 per cent. of the gross earnings on products. They agreed that this percentage was right for crude but that it was high for products. But as Musaddiq himself had suggested it, they did not query the point.

6. On course (a) I enquired whether they did not think it would be right before Henderson disengaged to put in the proposals of 15th January as they had been modified in the intervening negotiations. They said no. If the negotiations were to be broken off they proposed to do it without the submission of any further document.

7. It will not escape you that if we insist on course (a) the United States Government will withdraw on the basis that they have been unable to bring two recalcitrant parties together, while if we follow course (b) and the negotiations break down as they almost certainly will, they will be a combined Anglo-American position from which to deal with future developments.

EP 1531/159

No. 19

MEMORANDUM COMMUNICATED BY THE UNITED STATES EMBASSY, LONDON, ON FEBRUARY 15, 1953, GIVING AN ACCOUNT OF A MEETING BETWEEN THE UNITED STATES AMBASSADOR AT TEHRAN AND Dr. MUSADDIQ ON FEBRUARY 14

(Confidential)

Dr. Musaddiq asked to see Ambassador Henderson at noon on February 14th. Musaddiq began by saying that it had become clear that the British did not want to arrive at a settlement of the oil problem; that it was no longer possible for him to handle his critics who were demanding immediate action in the light of the steady deterioration of Iranian economic and financial situation; and that he had therefore made the decision to forward a message to the Majlis on February 17th stating that there was no longer a hope of achieving a settlement of the oil problem and asking for its approval for Iran to begin immediately to sell oil to all comers at any price which could be paid. The Prime Minister added that he was conscious of American concern regarding the sale of oil to countries behind the Iron Curtain. Nevertheless, in the light of public opinion in Iran, he had no other choice in the event of a break down in the talks than sales to any nation which is willing to purchase unless American nationals or the American Government were ready to buy Iran's oil in substantial amounts.

Ambassador Henderson told Dr. Musaddiq that he felt that it would be premature to take such action. He still hoped to receive instructions during the coming week which would enable him to renew the effort to breach the gap between the British and Iranian positions. Musaddiq said that he was appreciative of the attempts which had been made to solve this problem, but he was now convinced that nothing would come from them. Ambassador Henderson admitted that the Prime Minister might be correct, but was insistent that as long as even a shadow of possibility of reaching a settlement remained, the Prime Minister should not take precipitate action. Musaddiq finally agreed to postpone until February 21st the action which he contemplates. If the United Kingdom and Iran have not reached agreement by that date, he would be compelled to forward his message to the Majlis.

Musaddiq enquired what would happen if the talks should end in failure during the coming week. Ambassador Henderson replied by saying that it seemed to him that Dr. Musaddiq himself was in the best position to answer that question. While he did not wish to try to persuade the Prime Minister that he should not sell oil to any buyer at cut prices, he nevertheless felt it his duty as Iran's friend to inform the Prime Minister that sales of this kind would not solve the Iranian financial problem. Even at cut prices, few responsible companies would be willing to come promptly forward and buy Iranian oil in the absence of a settlement of the compensation question. Any sales which Iran might make to adventurous business concerns in the free world or to Iron Curtain countries would be so negligible as not

to provide any real solution for the difficult economic and budgetary problems which his Government is facing. The only effective and proper answer to this problem would be a settlement of the question of compensation, followed by arrangements for the sale of substantial quantities of oil to buyers who possess the necessary distribution and transportation facilities. A.I.O.C. is at present the only potential buyer which is able to distribute substantial quantities of Iranian oil. Iran, if it sincerely hopes to solve its economic and financial problems through its oil industry, should be ready, not only to reach a settlement on compensation, but to sell large quantities of its oil to A.I.O.C. or to some international organisation in which a major role would be played by A.I.O.C. Musaddiq replied that he is prepared to sell Iranian oil to an international company in which A.I.O.C. would be a participant provided that an agreement could be reached on the terms of sale. However, he foresaw little chance that the compensation question could be solved. Ambassador Henderson replied that it appeared to him that the present issue with respect to compensation is that Iran does not desire to agree to terms of reference for adjudication by the I.C.J. which might result in Iran being required to pay more compensation than it felt itself able to pay; the British felt, on the other hand, that in view of public opinion in the United Kingdom and of the opinion of the entire business world, they could not agree to terms of reference which would limit compensation to the loss of A.I.O.C.'s physical property in Iran.

Dr. Musaddiq expressed agreement but was insistent that he had put forward a proposal for avoiding this issue by concluding an agreement with the British whereby Iran would pay 25 per cent. of the proceeds of the sales of oil over an agreed period of years. However, he said that he understood that the British did not desire to listen to proposals for settling the oil question through means other than adjudication or arbitration. He added that after the various talks which had taken place thus far, the British could not but realise that no agreement could be reached regarding terms of reference for submitting this question to the I.C.J. Therefore, British refusal to consider other methods for reaching a settlement constituted convincing evidence to him that the British did not desire a settlement. While pretending that they want a settlement, the British were utilising their numerous contacts in Iran in an effort to overthrow him through alliance of forces which include the Bakhtiari and other tribal elements, discarded politicians, fanatical religious groups lead by irresponsible Mullahs, Communist front organisations and disgruntled reactionary groups in the bureaucracy and army. The British apparently entertained the hope that a subservient Government would emerge from the chaos which would follow his overthrow. It is possible that the British might succeed in overthrowing his Government. If they did, however, they would also eliminate Iran from the free world. He had no intention of remaining idle while his country is being destroyed. He would take counter measures. He was issuing an order to suppress sternly uprisings among the Bakhtiari tribes. He expressed the hope that the implementation of this order would not create an impression of friction between the Shah and him. Merely because the Shah's wife was of Bakhtiari origin, he could not fail to ensure security in that area.

Ambassador Henderson told Musaddiq that he was persuaded that the United Kingdom was just as anxious to reach a settlement of the oil proposal as Musaddiq and that the United Kingdom would like to reach an agreement which was so advantageous both to the United Kingdom and Iran as to make it durable. It, therefore, seemed to Ambassador Henderson that we should be concentrating on the question of an oil settlement. The Prime Minister should not be too pessimistic about such a possibility. A few weeks ago there was a widespread impression that it would be impossible to reach a settlement of the Sudan question. Nevertheless, as a result of a high order of statesmanship in the United Kingdom and Egypt, an agreement over the Sudan has just been reached. Dr. Musaddiq indicated his surprise. He said that he had not been informed about this agreement and requested details. Ambassador Henderson, replied that, although his information was scant, he would outline what information he had from foreign press reports. Musaddiq said he was quite certain that Egypt would lose by this agreement. Henderson indicated that, although his information was limited, he was confident that the agreement was beneficial to both parties.

Dr. Musaddiq said, after further discussion, that he would stand by the statement which he had made earlier in the conversation. If his counter-proposals had not been accepted by 21st February or if new proposals which appeared to contain promise for a solution had not been conveyed to him by then, he would send to the Majlis a message along the lines which he had outlined to Ambassador Henderson.

EP 1531/158

No. 20

(1)

AMERICAN PROPOSALS FOR A SETTLEMENT*Foreign Office to Sir R. Makins (Washington)*(No. 716. Confidential)
(Telegraphic)

Your telegrams Nos. 288 and 323 [of 10th and 14th February]: Persian Oil.

We have now considered the American proposals referred to in your telegram No. 288 in the light of Henderson's talk with Musaddiq on February 14th.

2. We note that Musaddiq's threat to sell oil cheaply and the recent weakening in tanker freights has caused the State Department to revert to the argument they put to us last November that failure to reach any agreement with Persia will undermine the oil price structure and that this is a greater danger than any repercussions which a bad agreement might have in other concessionary countries. We agree that Persia's chances of selling oil are greater now that more tankers are available. Not only will this enable potential "pirate" firms to charter more tankers, but cheaper freights may enable Persian oil to sell competitively over a wider area, including notably the United States. We do not think however, that Persia will be able to find markets for any very large quantities of oil so long as the major companies deny their distribution and refining facilities. Nevertheless, even if Persian oil were to appear in world markets on an increasing scale, it is still our strong view and that of A.I.O.C. that this is a risk that must be faced rather than make a bad agreement which would unsettle other producing countries and certainly have serious repercussions on British and American companies' investments over a wide area of the world. The State Department are making much of this balance of risks which is essentially one for the oil industry to weigh. There is no evidence that the United States companies have been consulted. You should, therefore, give the State Department the above assessment which we have made after most careful consideration and, unless you see objection suggest that the views of the United States companies should be sought.

3. As regards Musaddiq's latest conversation with Henderson, it seems clear that, if he really means what he says, his present attitude offers no prospect whatever of any settlement. It merely serves to illustrate how necessary it is when dealing with Musaddiq to stand firm and not cast about to meet each veering mood or allow ourselves to abandon points of principle in the face of blackmail.

4. We are sure that in dealing with Musaddiq we must stand on the principles embodied in the 15th January proposals and certainly could not agree to any concessions of substance at a point when the Americans themselves realise that the chance of Musaddiq accepting anything is negligible. But there remains the question of maintaining the common Anglo-American front and, in particular, of committing the new Administration to stand with us publicly in the Persian dispute. To secure this, and with the considerations at paragraph 7 of your telegram No. 288 in mind, we are now prepared to accept the idea of limiting compensation to a period of 20 years, if the Americans think this will do any good, and provided that this further modification is handled in way proposed in paragraph 8 below. We cannot, however, accept the method suggested in the latest American draft to which your telegram No. 288 refers, as the effect would be that Persia would in certain circumstances not be called upon to pay the full amount of the Award, which would constitute a major concession of principle. We could, however, accept as an alternative the formula given in my immediate following telegram. This would replace paragraphs 3 and 4 of Part II of the latest American draft.

5. You will note that our formula is more or less the same as that suggested by Brynne in your telegram No. 225, though the State Department have not apparently followed it up. We think it better to refer to "5 per cent. of the balance" per annum rather than to a fixed period of 20 years, as this may have less influence on the Court's assessment. Our formula also provides for the possibility of Persia paying the "free" oil in the form of products as well as crude. The State Department may feel that Persia's fears of "economic bondage" include an apprehension lest A.I.O.C. would not agree to Persia making payments in oil under the alternative method provided for in the 15th January proposals. In that case we could consider varying the formula to include a prior agreement on a fixed proportion of the 25 per cent., to be paid in oil, and so relieve any Persian fears that the whole of the 25 per cent. would have to be paid in cash.

6. For the reasons given in paragraph 10 of my telegram No. 441, we cannot, so long as the period within which Persia completes the payments remains indefinite, agree to the State Department's renewed suggestion that we should no longer insist on obtaining interest for compensation due but unpaid. If, however, the formula in my immediate following telegram is accepted, it will not be necessary to provide for interest in the Arbitration Agreement. The Court would know that the payment of the Award was likely to be spread over twenty years and we would ask the Court, in assessing total compensation, to have regard to this

fact, i.e. the risk element should be capitalised and added to the total Award. In these circumstances, however, if we are to delete paragraph 5 of Part II of the American draft, it would be necessary to insert the following paragraph as (C) of Paragraph (1) of Part I:—"The Court shall, in determining the sum payable under Paragraphs (A) and (B) hereof, have regard to the fact that any balance due from or to the Iranian Government will, in accordance with the provisions of paragraph 4, be discharged over a period of years by payments not themselves carrying interest."

7. In speaking to the State Department, you should not disguise the fact that our suggested formula for limiting the period of payments to 20 years will, during this period, constitute a heavier burden on the Persian economy than the 15th January proposals. You should make full use of the arguments in paragraph 5 of my telegram No. 513 pointing out that the 15th January proposals were elastic as regards method of payment in either cash or oil, and therefore left it to the Persians whether they would pay off quickly in large annual amounts or over a longer period with less annual strain on their economy. They cannot have it both ways.

8. As regards tactics, I must insist that, if we are to make these further changes in the 15th January proposals, we should not give him the new formula for method of payment before confronting him firmly with the 15th January "package" proposals as a whole, modified on the lines already agreed. To do so would be very bad tactics with Musaddiq. It is surely a normal exercise in diplomacy to see that the other side do not break off negotiations before the full hand is played. You should, therefore, urge the State Department to instruct Henderson accordingly. I could not agree to his putting the new payment formula to Musaddiq without first having re-submitted to 15th January proposals on the lines of paragraph 7(b) of my telegram No. 440.

(2)

TRUST ACCOUNT FOR THE RECEIPT OF 25 PER CENT. OF RECEIPTS FROM OIL SALES*Foreign Office to Sir R. Makins (Washington)*(No. 717. Confidential)
(Telegraphic)Foreign Office.
February 18, 1953.

My immediately preceding telegram.

Following is text of alternative draft.

(3) Pending the decision of the Court, 25 per cent. of the gross receipts from all sales of oil and oil products exported from Iran shall, unless another currency is agreed between the Government of Iran and the Government of the United Kingdom, be deposited in sterling in a trust account with a financial institution or trustee bank to be agreed upon between the two Governments, or, in default of such agreement, to be specified by the Vice-President of the Court, and shall await the decision of the Court. Any balance remaining in the trust account after the execution of the decision shall be paid to the Government of Iran.

(4) Any balance due in consequence of the decision of the International Court of Justice shall be paid as follows:—

(i) If a balance is due to the Company, the method of payment in instalments shall be as follows:—

(a) by payment to the Company in cash in sterling of the sum deposited pursuant to paragraph 3 above, or of such part of such sum as is sufficient to fulfil the award of the Court.

(b) By payments in cash in sterling, to the credit of the Company in a bank designated by the latter, of 25 per cent. of the gross receipts from all sales of oil and oil products exported from Iran after the date of the award of the Court for such period as may be necessary (taking into account the value of any deliveries made pursuant to (c) below) to liquidate the balance due to the Company after deducting the payment made pursuant to (a) above (referred to in (c) below as "the said balance").

(c) If in any year the payments made pursuant to (b) above are less than 5 per cent. of the said balance the Company shall be entitled to receive, and Iran shall deliver to the Company, in the same or following year free crude oil, or to the extent that may be agreed between the parties free oil products equal in value to the amount by which the payments fall short of 5 per cent. of the said balance.

(d) Any crude oil or oil products delivered pursuant to (c) above shall be valued on a basis to be agreed between the Iranian Government and the Company; or, in default of such agreement, on such basis as shall be determined by an umpire appointed by the Vice-President of the Court.

(e) The above arrangements do not preclude, if so agreed between the Iranian Government and the Company, the discharge of balances due by deliveries of oil to the Company in such quantities and over such a period of years as shall be mutually determined by them.

ACCEPTANCE BY THE UNITED STATES OF UNITED KINGDOM PROPOSALS

Sir R. Makins to Mr. Eden. (Received February 18)

(No. 345. Confidential)
(Telegraphic)

Your telegram No. 716: Persian Oil.

Action taken today with Bedell Smith and full State Department team.

2. They accepted your proposals as a reasonable final position, and expressed much appreciation of the manner in which you had responded to their suggestions. Only difficulty arises on tactics. They feel very strongly that it would put Henderson in an almost untenable position if he had to put the 15th January proposals, as previously agreed, without indicating that any further concession was possible. They consider that Musaddiq would be likely to reject this sharply; Henderson would then have no opportunity of presenting the final Western proposal and, if this was rejected by Musaddiq of disengaging in most favourable circumstances from our point of view.

2[sic]. They therefore propose that Henderson should put in the 15th January proposals, as previously amended, but giving Musaddiq the choice as regards method of payment between the existing text and that contained in your telegram No. 717, and including the provision about interest in paragraph 6 of your telegram under reference.

3. In expressing the earnest hope that you would agree to this method of handling the matter, Bedell Smith made it clear:

- (i) That in his opinion and that of Mr. Dulles, both the Americans and ourselves had now reached the limit of concession.
- (ii) That they regarded this as the last round and that if Musaddiq did not accept, Henderson would disengage.
- (iii) That if a break came on the basis of this final proposal, they would join us in defending it as firm and reasonable.

4. They think that unless Henderson can act very soon, Musaddiq himself may take the initiative in breaking off the discussion and they therefore want to instruct him to act immediately.

5. Do you agree to State Department proceeding accordingly? If I understand your last paragraph correctly your essential point is that next approach to Musaddiq should rest firmly on 15th January proposals, and this objective seems to be achieved. State Department argue with force that there is only time for one more move.

(4)

ANGLO-AMERICAN AGREEMENT ON PROPOSALS

Foreign Office to Sir R. Makins (Washington)

(No. 740. Confidential)
(Telegraphic)

Your telegram No. 345 and my telegram No. 735 [of 18th and 19th February]: Persian Oil.

I am very glad we are so closely in agreement.

2. I agree to Henderson putting both proposals for method of payment to Musaddiq, but as a matter of tactics should greatly prefer him to do it in the following way.

3. Henderson would remind Musaddiq that he had reported all their conversations to Washington and to London. The two Governments had the impression that Musaddiq was seeing difficulties where none existed and was quite unreasonably suspicious of British motives. The proposals put to Musaddiq on 15th January were a serious offer which world opinion would recognise as just and equitable. Musaddiq should look at these proposals again. In

drafting them our Governments had done all they could to meet Musaddiq's public relations difficulties and Henderson would hope that Musaddiq would on reflection find the proposals acceptable. At this stage Henderson would no doubt mention the minor changes contained in paragraph 2 of my telegram No. 513 which we were prepared to introduce in a further effort to meet Musaddiq.

4. Henderson could add that finally we were also ready to meet his point in regard to the need for a maximum period within which the Arbitral Award would be paid, and that Musaddiq would see that the formula suggested would have that effect. Henderson would make it clear to Musaddiq that both Governments had said their last word and that Musaddiq could not expect any further modifications.

5. You should inform the State Department that I have taken note with gratification of the attitude of General Bedell Smith and Mr. Dulles as reported in paragraph 3 of your telegram under reference.

No. 21

REFUSAL OF DR. MUSADDIQ TO FACE UP TO OUR PROPOSALS

(No. 45 Intel. Confidential)
(Telegraphic)

Foreign Office,
February 21, 1953.

My Intel No. 20 [of 17th January]: Persian Oil.

Since the date of my telegram under reference, the United States Ambassador at Tehran has had a number of conversations with Dr. Musaddiq. In the course of these Dr. Musaddiq constantly shifted his position and was consistent only in his refusal to face up to our proposals.

2. As regards claims and counter-claims Musaddiq first said that the International Court itself should adjudicate, but he went back on his agreement to consider terms of reference which would allow the A.I.O.C. to claim compensation for loss of future profits. Later he said that he did not want to go to the International Court at all and proposed that the Company should be compensated by taking 25 per cent. of Persia's oil revenues, whatever these might be, over a period of years to be agreed.

3. As regards the United States financial aid. Musaddiq picked on the provision in the D.M.P.A. Agreement requiring Persia to pay interest if deliveries of oil fell into arrears and said that rather than pay interest he would take only the initial payment of \$50 million. He tried to separate the commitment to enter commercial negotiations for a sales contract with the "International Company" from the D.M.P.A. Agreement, in which context, as he doubtless realised, it would have had the character of an obligation to the United States Government, who could have taken action if it were not honoured.

4. In the face of these manœuvres Her Majesty's Government and the United States Government agreed that no further points of substance could be conceded and that this must be brought home to Musaddiq. There were, however, certain points which the two Governments agreed might be presented somewhat differently if the manner of their presentation would make the difference between acceptance and refusal. Among other things, the Defence Materials Procurement Agency would not appear in the agreement, the term "a designated agency of the United States Government" being used instead. Finally since Musaddiq had at one point indicated that it would be more acceptable to public opinion in Persia if the period over which compensation were to be paid could be defined, Her Majesty's Government agreed in deference to United States suggestions, that the period could be set at a maximum of twenty years provided that nothing in the terms of reference limited the amount of compensation which the International Court would be asked to award. We realised, of course, that this might impose a greater burden on Persia than the flexible provisions of the 15th January proposals, since the shorter the period of payment the greater the annual amount.

5. Accordingly on 20th February the United States Ambassador at Tehran again confronted Musaddiq with the essentials of the 15th January proposals, varied as indicated above. Musaddiq's reaction was unfavourable, but he is consulting his advisers before giving a final view. The United States Ambassador has instructions to make it clear that Musaddiq cannot expect any further modifications.

6. You will be informed as soon as the outcome is clear. Guidance for publicity in the event of negotiations being broken off, or alternatively of their succeeding, will follow. Beirut please pass to Merdiv.

**TELEGRAM FROM THE UNITED STATES AMBASSADOR AT TEHRAN
GIVING A FULL REPORT OF HIS CONVERSATION WITH
Dr. MUSADDIQ ON FEBRUARY 20**

(Communicated by the United States Embassy on February 21)

(Confidential)

1. Ambassador Henderson reports that when he saw Dr. Musaddiq on 20th February, the latter appeared in unusually good humour. After exchanging amenities, Ambassador Henderson told him that following weeks of discussion and study between the United Kingdom and the United States on the basis of the conversations in Tehran, he had come to present him with some proposals. These took the form of a draft Heads of Agreement and a draft Compensation Agreement.

2. Ambassador Henderson said that the Compensation Agreement represented British proposals for settling the problem of compensation. The United States Government and Ambassador Henderson himself regarded them to be fair and considered that if accepted they would permit Iran to overcome difficult compensation problem without danger of being saddled with an unbearable burden of indebtedness. He said that two versions of the compensation draft had been prepared and he would present both in due course. Musaddiq would realise on examining them that the British, without abandoning principles to which they felt they must stick, had done their utmost to meet the various proposals which he had proposed. They were not able to go further.

3. Musaddiq would also note that the United States original draft of the Heads of Agreement had also been amended to conform as far as possible with his views.

4. Ambassador Henderson told Musaddiq that, before giving him the documents, he wished to stress that unless the United States Government and himself were not convinced that the acceptance of these documents would benefit the Iranian people and its Government, the United States Government would not have sent the proposals to him nor would he be giving them to Musaddiq in his present state of hopefulness that they would be accepted. Should Musaddiq not be able to equal the conciliatory attitude shown by the British Government, the Government of the United States would have no alternative but to conclude that to try and keep the present conversations alive would serve no useful purpose. He had a deep sense of responsibility in presenting the document to him and could appreciate that in making the decision which now awaited him, he, Musaddiq, must have an even greater sense of responsibility, not only towards his own people but also toward peace-loving people throughout the world.

5. The Prime Minister stated he appreciated the efforts made by the United States Government. He personally was sure that no matter what should be the results of the present conversations, the United States Government was attempting to promote a settlement which had Iran's interest at heart. Ambassador Henderson replied that he was convinced that, despite the absence of diplomatic relations with the Government of Iran, the Government of the United Kingdom also had Iran's interest at heart and had no desire to reach an agreement which would be oppressive to Iran. He said that eloquent testimony of British good will was contained in the proposals which he was about to give Musaddiq.

6. The two alternative drafts of the Compensation Agreement were considered first. To simplify explanations, Ambassador Henderson suggested that Musaddiq first read the brief summaries of the main points which Ambassador Henderson had prepared in advance. After reading them carefully and asking a few questions, Musaddiq said he understood them. After being given the full text of the draft, he said that before discussing them, he would prefer to examine the Heads of Agreement. He also read this document with care and commented that it was so clear that he had no questions concerning it at that time. He said rather he desired to discuss certain elements of the Compensation Agreement.

7. Musaddiq said that he would like first to discuss what had been labelled "Alternative Compensation Agreement." Ambassador Henderson had the impression that, although Musaddiq did not specifically say so, he was not interested in the draft similar in character to the one presented him on 15th January. Musaddiq said that although the draft differed in form somewhat from the original 15th January proposals, it seemed to him it differed little as far as substance was concerned. Ambassador Henderson explained the various changes and concessions which had been made along the lines suggested in the British message to Washington on 19th February. He also explained that the alternative draft eliminated problems arising from a payment of interest and that without undue strain on the Iranian economy, payments could be finished within at least 20 years. No hardship would be imposed on Iran in paying 25 per cent. of the gross receipts from oil exports in addition to such annual deliveries of crude oil or oil products as might be necessary. Musaddiq commented that the British were still demanding 25 per cent. of the gross proceeds while, in accordance with Iranian law, he had proposed 25 per cent. of net proceeds. Henderson responded that the

United States Government was in agreement with the British that to determine exactly what net receipts were might be difficult and that to use gross proceeds as a base would be a much simpler method. Anyway, the amount of compensation due would not be increased by payment based on gross proceeds. It would simply involve compensation being paid more quickly. Musaddiq replied that he had been thinking along lines that net proceeds could be arbitrarily established as 80 per cent. of the gross proceeds in order that Iran would be making annual payments of 20 per cent. of the gross proceeds rather than 25 per cent. None the less, he personally tended to agree that this was not too important a question, although he did not know what his advisers would say.

8. Musaddiq stated that the terms of reference constituted his most serious objection to the proposals. The British had made no concessions whatsoever in them and in their present form he was certain they would be unacceptable. It was clear that the British intended that the Court should use the principles of the Coal Nationalisation Law in determining the amount of compensation due as they were still asking for the inclusion of the phrase "loss of the Company's enterprise in Iran". Musaddiq said he had already mentioned to Henderson several times that he could not agree to the terms of reference of this character and could not understand the reason for the continued British insistence that the coal law be used as a basis for determining the amount of compensation owed the Company. Ambassador Henderson pointed out to Musaddiq that it was Musaddiq himself who had first broached the idea that the determination of the amount of compensation due the Company should be based on some British law acceptable to the Company and the language used in the present draft had been selected in order that his suggestions might be made applicable to the case at issue. Musaddiq replied that it would be more preferable for the Court to be given more leeway in reaching a decision as to how it should determine the amount of compensation due. Henderson pointed out that it was Musaddiq himself that had uniformly insisted that the Court should not be given full discretion. It had been his argument that the Court should compensate only for losses incurred by the Company as a result of the confiscation of its physical property in Iran. That the formula contained in the draft was not acceptable to him was regrettable but it did represent the best efforts of the British to meet his wishes. The United States Government considered the formula fair and that its acceptance would not hurt Iran in the context of the whole draft. Musaddiq stated that he did not want to give me a definite reply until he had a chance to discuss the drafts with his advisers, but he did not think that the proposals could be agreed to, especially in view of the wording in the terms of reference.

9. Ambassador Henderson told the Prime Minister that although he had no reason to think that the Prime Minister's advisers were not patriotic Iranians concerned with the welfare of their country, none the less, he did hope that when Musaddiq talked with them he would remember that they were only three or four men possessing the usual human frailties and that in back of these advisers were 18,000,000 Iranians whose future prosperity and happiness could be seriously affected by the decisions which he would make. He hoped that Musaddiq would make his advisers aware of the grave responsibilities which they also had and that, should they begin emasculating the proposals, he would inform them that grave harm to Iran might result from their actions. Ambassador Henderson reports that Musaddiq accepted the above remarks with seemingly good grace and again expressed his appreciation of the United States Government's efforts in promoting the settlement and said that he would make his reply at the earliest possible moment.

**COMPENSATION AGREEMENT: TEXT OF DRAFT AGREEMENTS
GIVEN TO Dr. MUSSADIQ BY THE UNITED STATES AMBASSADOR
ON FEBRUARY 20**

(Confidential)

(1)

March 11, 1953.

The Government of Iran and the Government of the United Kingdom:

Desiring to bring about a settlement of all claims and counter-claims which have arisen in the case of the Anglo-Iranian Oil Company Ltd., a United Kingdom registered company which formerly operated in Iran, hereinafter referred to as the Company:

Have agreed to refer the said claims and counter-claims to the International Court of Justice in accordance with the provisions of Parts I and III of the present agreement; and have agreed further that the arrangements for the payment of any balance due in consequence of the decision of the Court shall be those set out in Part II of the present agreement.

Part I

1. The Court is requested

(A) To determine the sum required to provide fair compensation in respect of the loss of the Company's enterprise in Iran as the result of the Iranian Oil Nationalisation Laws of March and May 1951; employing for that purpose the principles applied in determining the compensation awarded under any United Kingdom law enacted

and carried out prior to the adoption of the said Iranian Oil Nationalisation Laws, which the Government of the United Kingdom may specify, nationalising any industry in the United Kingdom.

(B) To determine the validity of all counter-claims which the Iranian Government may have respecting the Company and the sum required to meet them.

2. The decision of the Court shall, in accordance with Articles 59 and 60 of the Statute of the Court, be definitive and binding; and its award, which shall be expressed in terms of sterling, shall constitute a full and final settlement of all the claims and counter-claims of the parties respecting the Company.

Part II

3. Any balance due in consequence of the decision of the Court shall be paid as follows:

(A) Any balance due from the Iranian Government shall be discharged by payments in cash in sterling, to the credit of the company, in a bank designated by the latter of 25 per cent. of the gross receipts from all sales of oil and oil products exported from Iran; if so agreed between the Iranian Government and the Company, by deliveries of oil to the Company in such quantities and over such a period of years as shall be mutually determined by them.

(B) If a balance is due to the Iranian Government, it shall be discharged by payments in cash in sterling to the credit of the Iranian Government with a bank designated by the latter of such amounts over such periods of years as shall be agreed between the Iranian Government and the Company, or, in default of such agreement, in such amounts over such periods of years, as shall be determined by an umpire appointed by the Vice President of the Court.

4. Pending the decision of the Court, 25 per cent. of the gross receipts from all sales of oil and oil products exported from Iran shall, unless another currency is agreed between the Government of Iran and the Government of the United Kingdom, be deposited in sterling in a trust account with a financial institution or trustee bank to be agreed upon between the two governments, or, in default of such agreement, to be specified by the Vice President of the Court, and shall await the decision of the Court. Any balance remaining in the trust account after the execution of the decision shall be paid to the Government of Iran.

5. Any amount still outstanding under Article 3(A) or 3(B) above, one year after the date of the decision of the Court, and thereafter from year to year, shall carry interest at a rate to be agreed between the Iranian Government and the Company, or, in default of such agreement, to be determined by an umpire appointed by the Vice President of the Court.

Part III

6. The present agreement shall be subject to ratification and shall come into force immediately upon the exchange between the Governments of Iran and the United Kingdom of their respective instruments of ratification. It shall thereupon be notified to the International Court of Justice as provided by Article 40 of the Statute of the Court and Article 35 of the rules of Court; and such notification may be carried out by either of the parties acting singly, unless effected jointly by them within two weeks of the coming into force of the agreement.

In faith whereof the undersigned plenipotentiaries have signed the present agreement.

Done in duplicate at this day of 1953, in the English, Persian and French languages, all three texts being equally authentic.

20th February, 1953.

(2)

ALTERNATE COMPENSATION AGREEMENT

The Government of Iran and the Government of the United Kingdom:

Desiring to bring about a settlement of all claims and counter-claims which have arisen in the case of the Anglo-Iranian Oil Company Ltd., a United Kingdom registered company which formerly operated in Iran, hereinafter referred to as the Company;

Have agreed to refer the said claims and counter-claims to the International Court of Justice in accordance with the provisions of Parts I and III of the present agreement; and have agreed further that the arrangements for the payment of any balance due in consequence of the decision of the Court shall be those set out in Part II of the present agreement.

Part I

1. The Court is requested

(A) To determine the sum required to provide fair compensation in respect of the loss of the Company's enterprise in Iran as the result of the Iranian Oil Nationalisation Laws of March and May 1951; employing for that purpose the principles applied

in determining the compensation awarded under any United Kingdom law enacted and carried out prior to the adoption of the said Iranian Oil Nationalisation laws, which the Government of the United Kingdom may specify, nationalising any industry in the United Kingdom.

(B) To determine the validity of all counter-claims which the Iranian Government may have respecting the Company and the sum required to meet them.

(C) The Court shall, in determining the sum payable under Paragraphs (A) and (B) hereof, have regard to the fact that any balance due from or to the Iranian Government will, in accordance with the provisions of paragraph 4, be discharged over a period of years by payments not themselves carrying interest.

2. The decision of the Court shall, in accordance with Articles 59 and 60 of the Statute of the Court, be definitive and binding; and its award, which shall be expressed in terms of sterling, shall constitute a full and final settlement of all the claims and counter-claims of the parties respecting the Company.

Part II

3. Pending the decision of the Court, 25 per cent. of the gross receipts from all sales of oil and oil products exported from Iran shall, unless another currency is agreed between the Government of Iran and the Government of the United Kingdom, be deposited in sterling in a trust account with a financial institution or trustee bank to be agreed upon between the two Governments, or, in default of such agreement, to be specified by the Vice-President of the Court, and shall await the decision of the Court. Any balance remaining in the trust account after the execution of the decision shall be paid to the Government of Iran.

4. Any balance due in consequence of the decision of the International Court of Justice shall be paid as follows:

(i) If a balance is due to the Company, the method of payment in instalments shall be as follows:

(a) by payment to the Company in cash in sterling of the sum deposited pursuant to paragraph 3 above, or of such part of such sum as is sufficient to fulfil the award of the Court;

(b) by payments in cash in sterling, to the credit of the Company in a bank designated by the latter, of 25 per cent. of the gross receipts from all sales of oil and oil products exported from Iran after the date of the award of the Court for such period as may be necessary (taking into account the value of any deliveries made pursuant to (c) below) to liquidate the balance due to the Company after deducting the payment made pursuant to (a) above (referred to in (c) below as "the said balance");

(c) if in any year the payments made pursuant to (b) above are less than 5 per cent. of the said balance the Company shall be entitled to receive, and Iran shall deliver to the Company, in the same or following year free crude oil, or to the extent that may be agreed between the parties free oil products, equal in value to the amount by which the payments fall short of 5 per cent. of the said balance;

(d) any crude oil or oil products delivered pursuant to (c) above shall be valued on a basis to be agreed between the Iranian Government and the Company; or, in default of such agreement, on such basis as shall be determined by an umpire appointed by the Vice President of the Court;

(e) the above arrangements do not preclude, if so agreed between the Iranian Government and the Company, the discharge of balances due by deliveries of oil to the Company in such quantities and over such a period of years as shall be mutually determined by them.

(ii) If a balance is due to the Iranian Government, it shall be discharged by payments in cash in sterling to the credit of the Iranian Government with a bank designated by the latter of such amounts over such periods of years as shall be agreed between the Iranian Government and the Company; or, in default of such agreement, in such amounts over such periods of years, as shall be determined by an umpire appointed by the Vice President of the Court.

Part III

5. The present agreement shall be subject to ratification and shall come into force immediately upon the exchange between the Governments of Iran and the United Kingdom of their respective instruments of ratification. It shall thereupon be notified to the International Court of Justice as provided by Article 40 of the Statute of the Court and Article 35 of the rules of Court; and such notification may be carried out by either of the parties acting singly, unless effected jointly by them within two weeks of the coming into force of the agreement.

In faith whereof the undersigned plenipotentiaries have signed the present agreement.

Done in duplicate at this day of 1953, in the English, Persian and French languages, all three texts being equally authentic.

20th February, 1953.

HEADS OF GOVERNMENT AGENCY AGREEMENT

After the entry into force of the Compensation Agreement of today's date between the Government of Iran and the Government of the United Kingdom, a designated agency of the United States Government will contract to take from the National Iranian Oil Company over a period of time oil products or crude oil to a value of approximately \$133,000,000. 25 per cent. of the gross proceeds of oil products or crude oil delivered to the designated United States Government Agency under this agreement will be placed in escrow to be disbursed in accordance with the terms of the compensation awards; and the United States Government will advance \$100,000,000. to the National Iranian Oil Company against future deliveries of oil products or crude oil upon the following basis:

(1) Of the \$100,000,000., \$50,000,000. will be advanced immediately to N.I.O.C.: the balance will be advanced in instalments of \$10,000,000 a month as soon as the designated United States Government agency and N.I.O.C. agree on a provisional schedule of shipments and the designated United States Government Agency has satisfied itself concerning the availability and quality of the oil products or crude oil to be shipped under this schedule and has assured itself of the suitability of port, loading, and other essential facilities.

(2) It is understood that following the approval of this agreement the N.I.O.C. will enter into negotiations with an organisation or company of an international character (hereinafter called the International Company) which would include A.I.O.C. Ltd., a United Kingdom registered company which formerly operated in Iran, and would be constituted outside the United Kingdom or Iran, with a view to concluding a commercial agreement under which the N.I.O.C. will sell to the International Company substantial quantities of crude oil and oil products annually over a period of years; such negotiations to be undertaken as soon as the International Company is formed and ready to begin them.

(3) The United States Government through its designated agency intends to appoint the International Company as its agent for receiving delivery f.o.b. Iranian ports of oil and oil products for its account.

(4) Until such time as a commercial agreement is made between the International Company and the N.I.O.C., the price for the quantities of refined products to be delivered against the United States Government advance shall be the low of Platts at the United States Gulf price (which is the present Persian Gulf going price) less a discount of 35 per cent. In the event sufficient refined products desired by the designated United States Government agency are not available, it shall have the option of receiving crude oil at the same discount from the going Persian Gulf posted price. If N.I.O.C. shall sell refined products or crude oil to other customers than the International Company at price lower than the posted price for crude or the low of Platts for products referred to above, the price to the designated United States Government Agency will be calculated on the basis of such lower price less such appropriate discounts as may be negotiated between N.I.O.C. and the designated United States Government agency.

(5) For each delivery made under this agreement, N.I.O.C. will be credited with 75 per cent. of its value as determined under paragraph (4) above and the United States Government will pay 25 per cent. of its value to the Federal Reserve Bank of New York to be held by it in escrow until disbursed in accordance with the terms of the compensation award.

(6) Deliveries under this agreement will continue until the advance by the United States Government of \$100,000,000. is liquidated.

(7) At such time as a commercial agreement is made between the N.I.O.C. and the International Company, the price provisions contained in paragraph (4) shall be appropriately modified to conform with the price provisions of the commercial agreement.

(8) The foregoing is an agreement binding upon the United States Government and the Iranian Government and the parties agree to work out detailed arrangements to implement this agreement.

(9) It is agreed that in the event that there is any ambiguity as between the Persian and English texts of this agreement, the English text shall be controlling.

No. 24

DIFFERENCES BETWEEN Dr. MUSADDIQ AND KASHANI

Foreign Office to Mr. Eden (on board R.M.S. Queen Elizabeth)

(No. 23. Confidential)
(Telegraphic)

Your telegram No. 17 [of 1st March; Request for assessment of recent internal developments in Persia], (not to Washington).

Our present view is that this is a struggle for power between Musaddiq and Kashani which the former seems at the moment to be winning.

*Foreign Office.
March 3, 1953.*

2. Although nominally the centre of the dispute, the Shah appears in fact to be a pawn in the game. Our impression is that Musaddiq regarded the Shah as a rallying point of potential opposition to him and thought himself strong enough to get the Shah indefinitely out of the country. It would seem that Kashani, seizing upon the emotions surrounding the departure of the Shah, cleverly managed to couple popular clamour for the Shah remaining with attacks on Musaddiq. This popular clamour itself was almost certainly organised by Kashani and was not a spontaneous expression of a loyalty deep-seated or significant enough to stiffen the Shah.

3. Musaddiq, who appears to have lost control of events on Saturday, is now fighting back strongly and re-establishing his position. The Tudeh were late in entering the lists. They could obviously not side with the Shah but the fact that they have appeared on the same side as Musaddiq does not necessarily mean that he and they are allied. Indeed Musaddiq's supporters appear to have resented Tudeh attempts at collaboration.

4. We shall telegraph more fully when we have had Henderson's expected assessment which United States Embassy have undertaken to show us.

5. All this probably means that we shall not hear anything from Musaddiq about the oil negotiations at least for a few days.

EP 1521/214A

No. 25

COMMUNIQUE ON UNITED STATES-UNITED KINGDOM POLITICAL TALKS

(No.131)

*United States Department of State,**March 7, 1953.*

In addition to the discussions on economic and financial problems, the Foreign Secretary, Mr. Eden, and Secretary of State Dulles discussed the international political developments that have taken place since their conversations in London early in February.

1. They exchanged views regarding developments in the Soviet Union.
2. With respect to Europe, particular attention was given to the subject of the proposed treaty for a European Defense Community. Both the United States and United Kingdom Governments are concerned that the treaty be ratified as speedily as possible, so as to provide further continental unity which is essential to the most effective operation of the North Atlantic Treaty Organisation.
3. They also considered the situation in the Middle East with particular reference to the major problems in the area, and were in agreement on the urgency of furthering constructive solutions in the interest of all concerned.
4. With respect to Iran, Mr. Eden said that Her Majesty's Government were decided to stand on the proposals presented to Prime Minister Musaddiq on February 20, 1953. These proposals were the result of many conversations and careful study of all the factors involved. In the opinion of the United States Government these proposals are reasonable and fair. If agreed to:

- (a) Iran would retain control of its own oil industry and of its own oil policies.
- (b) The problem of compensation would be disposed of in such a way that there would be no sacrifice of the principles which form the very basis of international intercourse among free nations, and the payment of compensation would be fully compatible with the rehabilitation of Iran's economy.
- (c) Iran would have full opportunity to enter into arrangements whereby it could sell its oil in substantial quantities at competitive commercial prices in world markets.
- (d) There would be placed at Iran's disposal sufficient funds, to be repaid in oil, to meet its immediate financial problems pending resumption of the flow of revenue from its oil industry.

5. The two Secretaries of State also considered the Far Eastern situation. They reaffirmed the importance of preventing the shipment of strategic materials to the mainland of China. Mr. Eden stated that Her Majesty's Government in the United Kingdom, in addition to the system of controls already in force, had decided:

- (a) To introduce a new system of licensing vessels registered in the United Kingdom and Colonies so that strategic materials from non-British sources could not be carried to China in British ships;
- (b) To take additional steps designed to ensure that no ships of the Soviet *bloc* or other nationality carrying strategic cargoes to China should be bunkered in a British port.

The United States and British Governments will concert their efforts to secure the co-operation of other maritime and trading nations in the measures designed to exclude the shipment of strategic materials to the mainland of China.

6. Under arrangements made for the common defense the United States has the use of certain bases in the United Kingdom. The prior understanding was confirmed that the use of these bases in an emergency would be a matter for joint decision by Her Majesty's Government and the United States Government in the light of the circumstances prevailing at the time.

No. 26

AMERICAN CONCERN OVER THE COMPLAINTS OF Dr. MUSADDIQ

Foreign Office to Sir R. Makins (Washington)

(No. 1068. Confidential)
(Telegraphic)

Following for Secretary of State from Minister of State.

You may care to have the following before seeing the President.

2. The Americans seem to be in one of their periodic panics. They may have been seriously shaken by Musaddiq's complaints against Henderson's interference in the crisis last week which, as we now learn, were made against the background of suggestion by the Soviet Embassy some three weeks ago that Point IV should not operate in North Persia. At a recent interview with Henderson, Musaddiq spoke on these lines and also indicated that he was under criticism (not necessarily from the Russians) for not getting rid of the American Military Advisers.

3. We have received no indications of further progress by the Tudeh. The Americans who last autumn were regaling us with reports of the advance of Communism among the peasantry and priesthood, have showed us nothing of the sort recently. On the other hand the economic report from their Embassy in Tehran for the last quarter of 1952 bears out our contention that Persia's economy though sagging is not near breaking point and can be stretched further. Clifton Daniel, *New York Times* correspondent here just back from Tehran, tells us that the Persians are getting on much as they have always done. Musaddiq's one objective, in his view, is to beat down the British and do just what he likes with his oil.

4. Finally, Musaddiq seems to have given the show away in an interview with Henderson on March 4th. When Henderson said that public opinion at home would never understand the United States buying oil from British property in Persia which had been taken over without compensation, Musaddiq appears to have said: "You could tell them that you were saving Iran from Communism."

5. Would you not remind Bedell Smith and tell the President of the assurances given to us on February 18th. See Washington telegram No. 345 [of February 18th]. The refusal to issue the proposed statement on our oil proposals with the warning last sentence is disquieting.

No. 27

INTERVIEW BETWEEN Mr. HENDERSON AND Dr. MUSADDIQ : REQUEST BY Dr. MUSADDIQ FOR AMERICAN AID

Sir R. Makins to Mr. Eden. (Received March 11)

(No. 207 Saving. Confidential)
(Telegraphic)

Foreign Office telegram No. 1109 [of 9th March] to Washington: Persian Oil.

Following for Secretary of State.

Following is account of Henderson's interview with Musaddiq of 9th March in greater detail.

State Department have informed us that Henderson called on Musaddiq at 11.00 a.m. at the latter's request. The interview lasted two hours. Later, as Henderson was drafting his telegram reporting the meeting, he received a telephone call from Musaddiq asking him to ignore the interview as Musaddiq had spoken to him without consulting the Cabinet and now

wished to do so. Henderson agreed to consider the interview as not having taken place, but decided to report the substance for the information of the State Department. Henderson noted as he was leaving that Fatemi, Minister for Foreign Affairs, was waiting to come in to see Musaddiq, and he suspects that the latter urged him to consult his colleagues before taking any irrevocable steps.

2. The following is a summary of Henderson's report of the interview:

Musaddiq began by saying that he had been proposing to suggest that possibly the British might be willing to state immediately the amount of compensation they intended to ask of the International Court of Justice so that he and the people of Iran could evaluate the risk they would be incurring if they should agree to submit the question of compensation to the Court. Persia would be willing to state simultaneously the amount she was claiming from the Anglo-Iranian Oil Company. Musaddiq had now seen the communiqué of 7th March on the Anglo-American talks however. It was clear from this that nothing could be gained by continuing the conversations. Since Persia could not accept the proposals and Britain stood firmly on them, the result was a deadlock and the conversations could be regarded as terminated.

3. Musaddiq wished to make the proposals public but before publishing them he would ask certain questions addressed to the United States Government which he would incorporate in a Note. He outlined the terms of the Note as follows.

After indicating that as a result of Mr. Eden's statement it had become clear that the conversations had broken down, he would ask for direct answers by the United States to these questions:

In absence of an agreement regarding full compensation, would the United States Government be prepared:

- (a) to buy Persian oil in substantial quantities ?
- (b) to encourage private United States firms
 - (i) to purchase Persian oil?
 - (ii) otherwise assist Persia?
- (c) extend to Persia a loan to be repaid subsequently in oil?

4. The Prime Minister said that he regretted that he was compelled to ask such questions, but he and the Persian people must know what, if any, help could be expected from the United States before deciding on their course of action.

5. Musaddiq originally suggested that the proposals and the exchange of Notes should be published on 11th March simultaneously in all three capitals. Henderson said that the difficulty would be to obtain a reply to his enquiries sufficiently quickly to enable publication to take place on that date. He suggested that the time of publication should be decided upon after the receipt of the reply.

6. Musaddiq said he intended, when making public the proposals and the Exchange of Notes to give his reasons for rejecting the proposals. He would also state that he had suggested during the course of the negotiations that an attempt should be made to reach a settlement by means of an Agreement between Persia and the United Kingdom, according to which Persia would pay compensation by turning over to the Anglo-Iranian Oil Company 25 per cent. of the proceeds from the export of oil for a period of years to be agreed upon, but the United States and British Governments had never replied to that suggestion. Henderson said to Musaddiq that he should also say that Henderson was in no position to discuss any kind of solution to the compensation problem other than submission to the International Court of Justice or an impartial Arbitral Board. The Prime Minister repeated that the fact was that he had made the suggestion and received no reply from the British and he would say so. He said he was still willing to seek a solution of the compensation problem on this basis.

7. Other points which arose during the course of the interview were these:

The British and the Americans should not have issued a statement of this kind (i.e. the communiqué of 7th March) without advance notice to him. Henderson pointed out that the statement was made by the Department of State and not by the British and Americans and that the statement only outlined Mr. Eden's position and the views of the United States Government. During the last two weeks, Musaddiq's oil advisers had been systematically issuing statements to the Persian press which seemed to be giving erroneous impressions of the substance of the proposals of 20th February. The views in the United States communiqué might be helpful if they assisted the Persian public in understanding the kind of proposals these were. Musaddiq said that the purpose of the communiqué was to put pressure on the Persian Government to accept the proposals. The United States Government should understand that the present Persian Government would not bow to pressure.

8. When the Prime Minister informed Henderson that he considered the conversations terminated, Henderson expressed his regret. Henderson said that the United Kingdom had made important concessions. He hoped Musaddiq recognised this. Musaddiq replied in the negative. The proposals were no more advantageous than the 1951 proposals; although the British were not now demanding participation in the management of the Persian oil industry or monopoly rights in purchasing and distributing Persian oil, they were insisting

that Persia should give the International Court of Justice the right to put Persia under bondage for at least twenty years. If the Persians should become slaves, bound to turn over oil products to the Anglo-Iranian Oil Company, they would be in no better position than if the British were to be back controlling the oil industry and intriguing in her internal affairs. Henderson endeavoured, without success, to persuade Musaddiq that he was taking an extremist position.

9. Musaddiq at one point said that the British object was to get the Americans out of Persia and the whole Middle East, and that the British were hoping to come to an agreement with the Soviet Union to divide the Middle East into spheres of influence. Henderson again tried unsuccessfully to convince Musaddiq that his views on United States and British policies were mistaken and that the British were not so stupid as to imagine that the Soviet Union's ambitions in the Middle East and Persia could be curbed by policies of appeasement providing for spheres of influence.

10. The interview began somewhat stickily but towards the end Musaddiq assumed a more friendly attitude and spent a considerable time pointing out why the United States could not afford not to help Persia in her present critical internal situation.

11. Henderson concludes his telegram by saying that whatever is decided in the Cabinet this afternoon, the Prime Minister may decide to put to the United States the questions outlined in paragraph 3 above. These questions are likely to be raised in some form in the near future, and Henderson accordingly suggests that the United States Government should prepare these answers in advance.

12. Please see my telegram No. 535 to Foreign Office.

No. 28

DESIRE BY ITALIAN BUSINESS MEN FOR THE RESUMPTION OF PERSIAN OIL PURCHASES

Sir V. Mallet to Mr. Eden. (Received March 10)

(No. 146. Confidential)
(Telegraphic)

Rome,
March 10, 1953.

My telegram No. 145: Persian Oil.

Minister Commercial saw Corrias on latter's return from Luxembourg last night but after long conversation was unable to obtain any assurance that Italian Government will issue statement either immediately or in the future. Corrias said that Italian Government were under increasing pressure to relax their opposition to deals in Persian oil. Industrialists who were anxious to open up trade with Persia complained at the continued uncertainty caused by the protracted Anglo-Persian negotiations. Persia could only pay for her imports with oil. Further, Italian Government were now on the point of signing a treaty of commerce and navigation and this would encourage Italian exporters to increase their pressure.

2. Corrias added that he had heard that the latest Anglo-American proposals included setting up an Anglo-American company to market Persian oil. He thought it would help the Italian Government to check the pressure upon them if they could see some prospect of obtaining an interest in this company. The British, American, Dutch and French had oil interests in the Middle East but Italy was excluded. Could something be done about this?

3. Minister Commercial reminded Corrias that "Persian oil" was the property of A.I.O.C. until compensation had been settled. He did not know what marketing arrangements would be agreed and in any case the Persians might have some oil to sell independently. But he promised to report the views expressed by Corrias.

4. Seen against the general background of Italian interest in the Middle East this development is not surprising. It appears that the Italian Government might be working towards a position when they will claim to be able to restrain their industrialists from negotiating with the Persians now only by holding out prospect of profitable barter deals against Persian oil in the future. It is clear that the longer our agreement with the Persians is delayed the more difficult the Italians will find it to impede the activities of their nationals.

5. Meanwhile Venice decision is due to be given tomorrow (Wednesday).

EP 1533/90

No. 29

THE VENICE DECISION ON THE "MIRIELLA"

Parliamentary Question

Mr. Mott-Radclyffe: To ask the Secretary of State for Foreign Affairs, whether he will make a statement on the decision of the Venice Tribunal regarding the action brought by the Anglo-Iranian Oil Company in respect of the Persian oil carried by the tanker *Miriella*.

March 18, 1953.

In the Venice Court the Anglo-Iranian Oil Company applied for judicial sequestration of the *Miriella's* cargo. In this action they were not proceeding against any named person, for example Supor, the Italian firm involved in the deal, but were trying to get the Judge to say that they had produced sufficient of a *prima facie* case to show that there was sufficient of a dispute at law for him to issue an interim injunction to impound the oil, pending the outcome of a main action in Rome to determine its ownership. The A.I.O.C.'s chief argument was that without proper compensation the Persian Oil Nationalisation Law of the 1st May, 1951, being contrary to Italian public order, violated Italian law.

2. In the event that the judge chose to find that the effect of the Persian nationalisation laws took place in Persia, where the contract between the N.I.O.C. and Supor was made, and that the recognition in Italy of the effect in Persia of this contract was not contrary to public order. He also expressed the view that the (so-called) provision for compensation contained in the law of the 1st May was adequate and that there was, therefore, no sufficient *prima facie* case for impounding the oil. The A.I.O.C. at once started an action in the Rome Court by means of an "act of citation" (or writ) against Supor, claiming,

- (a) Supor's wrongful possession of the oil,
and
- (b) A.I.O.C.'s rightful ownership.

3. Mr. Mott-Radclyffe's question gives us a chance to make it clear that the Venice decision does not involve the merits of the question of the ownership of the oil, and that the A.I.O.C. will continue in all countries to take such action as it thinks fit for the protection of its interests.

4. A reply on these lines which has been cleared with the Ministry of Fuel and Power, the Treasury and the A.I.O.C. is attached.⁽¹⁾

5. This question may well lead to a supplementary about the attitude of the Italian Government to sales of oil from Persia and our representations on that score. This question has come up before: see Mr. Nutting's reply to Mr. Nabarro on the 17th December, 1952, Lord Reading's to Lord Vansittart on the 28th January, and the Secretary of State's reply to Mr. Arthur Henderson on the 16th February.

6. The present position of the Italian Government is very clearly given in Rome telegram No. 162 of the 14th March. In a word, the Italians, in spite of eleven assurances in the last fifteen months that they would not permit the import into Italy (i.e. the import into Italy proper for use there) of oil from Persia, are, at the moment, under pressure from their own industrialists and business men, beginning to waver. Hitherto we have said in the House (Flags A and C⁽¹⁾) that the Italian Government, among others, have been informed of the attitude of Her Majesty's Government to transactions in oil from Persia. In the House of Lords we went a bit further perhaps and added that the Italian Government "fully appreciated the position". Even if we succeed in holding the Italian Government to their promises for the present, we cannot ignore the fact that, under increasing pressure from their own business interests, they may at some time in the future, issue import licences. We must, therefore, be careful in the House not to give the impression of relying too strongly on Italian assurances.

7. I attach notes⁽¹⁾ for supplementaries on this and related aspects which have also been cleared with the Ministry of Fuel and Power, the Treasury and the A.I.O.C.

A. D. M. ROSS.

March 17, 1953.

(1) Not printed.

EP 1531/230

No. 30

**NOTES OF A TELEGRAM FROM THE UNITED STATES AMBASSADOR
AT TEHRAN REPORTING A CONVERSATION WITH
Dr. MUSADDIQ ON MARCH 18 ABOUT UNITED STATES AID
TO PERSIA**

(Communicated by United States Embassy on March 19)

(Confidential)

Musaddiq, at the end of his talk with Mr. Henderson on the 18th March about his speech to be delivered on the 20th, said he wanted to get the latter's reactions to an idea he was turning over in his mind. This idea was that he should ask the United States Government for a loan to be repaid either in oil or in the proceeds from oil sales. Alternatively, the United States Government could give him 100,000 tons of sugar on credit. A third possibility was that this sugar should be made available through Point IV.

2. Mr. Henderson gave it as his opinion that the United States Government would not react favourably to any of these suggestions at a time when Persia was refusing a reasonable and fair oil settlement which would solve the economic ills from which Musaddiq claimed to be suffering.

3. Musaddiq, however, reverted to his three ideas and elaborated on them as follows:

- i) He would purchase 100,000 tons of sugar on credit from United States companies on condition that if in six months countries outside the Iron Curtain should offer to buy oil, the Persian Government would pay for the sugar from the proceeds of such sales.
- ii) He might issue a notice that Persia would sell 3,000,000 tons of oil to first-comers within three months and with a 40 per cent. discount. If United States companies were first in the field with offers there would be no contracts with Iron Curtain countries.
- iii) He might announce that any purchaser could buy oil at any price acceptable to the Persians on a cash-and-carry basis for a definite period of time, but there would be no credit. Musaddiq then added that only countries of the Western bloc could be given credit.

4. Mr. Henderson said that no big United States oil company was likely to be interested in such propositions. Nor would such small sales as might take place really extricate Persia from her economic difficulties. Furthermore, deals with Iron Curtain countries would, as well as failing to solve Persia's economic problems, involve the Battle Act, and do the gravest damage to Persia's international reputation.

5. Musaddiq, however, persisted in his ideas and said he wished Mr. Henderson to put them to his Government and seek their reactions. He stressed that aid was a matter of urgency and that it would create an unfortunate impression if the United States were seen to be "ganging up" with the United Kingdom and forcing Persia, by economic pressure, to accept an oil settlement.

No. 31

**REJECTION BY THE UNITED KINGDOM OF A LUMP SUM
SETTLEMENT**

Sir R. Makins to Mr. Eden. (Received April 3)

(No. 708. Confidential)

(Telegraphic)

My telegram No. 526 paragraph 5. Persian Oil.

After a talk on another subject Linder reverted to this question yesterday. He harked back to the talk which the Secretary of State had had with Bedell Smith, recorded in my telegram under reference, and asked whether we had given any further thought to the possibility of a new approach on the Persian oil question, perhaps after a change in Persian leadership. He was at pains to stress that he was not suggesting any further approach to Musaddiq at the moment. The apprehensions which he had previously voiced about the easing of the tanker and freight situation were by no means allayed and the State Department were quite alarmed at the prospect of Persian oil coming on to the market. He hesitated to mention the words "lump sum" but he wondered whether we had given any consideration to the possibility of expressing a lump sum settlement in terms of a percentage of the annual proceeds from the sale of Persian oil spread over a period of 20 years on the lines of the last proposal to Musaddiq for arbitration.

Washington,

April 2, 1953.

2. I was as discouraging as possible. I said I thought it would be a mistake to stir up this question again at the moment. The threat of Communism in Persia did not seem to be increasing and, according to Musaddiq, their economic position was better. Our experts were not as alarmed as the State Department over the world oil position. My personal view was that it would be fatal to open up a discussion on the basis of a lump sum settlement and get away from the principle of arbitration. However, I would find out whether you had any further reflections on the conversation between Bedell Smith and yourself.

3. I do not regard this conversation as more than a normal attack of the fidgets on the part of the State Department after leaving the Persian question alone for 10 days or so.

4. It might help to quiet further restlessness on the part of the State Department if you were to offer to send out in the fairly near future someone to discuss the oil problems of the Middle East (see Beeley's letter of the 1st April to Ross).

EP 1531/240

No. 32

**NOTES OF A TELEGRAM FROM THE UNITED STATES AMBASSADOR
AT TEHRAN DATED APRIL 4, REPORTING A CONVERSATION
WITH Dr. MUSADDIQ ON APRIL 4**

(Communicated by United States Embassy on April 7)

(Confidential)

Henderson saw Musaddiq on 4th April and gave him the reply to the question which the latter had insisted on Henderson's transmitting to the State Department on 18th March. Henderson opened the conversation by telling Musaddiq that, as he had foreseen, the answers were in the negative. When Henderson began to transmit them, Musaddiq said that was unnecessary. It was enough for him that they were in the negative. Henderson insisted, however, on transmitting the answers in accordance with his instructions, since he was particularly anxious to impress on Musaddiq the rashness of selling oil to the Soviet bloc.

2. Musaddiq then asked what, in Henderson's view, he should do. Henderson replied that in his opinion the only course would be for Persia to come in to an agreement with the United Kingdom on oil. Musaddiq said he had been thinking of writing to President Eisenhower, setting forth Persia's situation. It was difficult for him to believe that if the President had a full understanding of Persia's position he would not see that it was necessary for the United States Government to come to Persia's assistance. Henderson said that in his opinion this would serve no useful purpose. The United States Government with the best will in the world could not flout United States public opinion by buying oil in the absence of some kind of compensation agreement. Musaddiq said that Persia was prepared to pay compensation but no bill had so far been presented. Persia was willing to submit the question of compensation to the International Court provided the United Kingdom would indicate the maximum amount claimed and provided that the amount would not be out of reason. Henderson said he thought it would serve no useful purpose to start discussing the oil dispute again. His terms of reference during the last three months had been limited to trying to reach agreement based on international arbitration. On the instructions of the United States Government he had put forward proposals from the United Kingdom which the United States Government had considered as reasonable and fair. Musaddiq had not accepted these proposals and had made no concrete counter-proposals. The United Kingdom Government for their part also showed no disposition to make fresh proposals. In such circumstances there was nothing to be gained by trying to assess the blame for the failure of the recent conversations.

3. At this point Musaddiq raised another matter and did not revert to the subject of oil. Nor did he indicate the course of action he might follow.

No. 33

REPORTED JAPANESE BARTER DEAL WITH THE PERSIANS

Foreign Office to Sir E. Denning (Tokyo)

(No. 451. Confidential)

Foreign Office,

(Telegraphic)

April 11, 1953.

According to Press reports the Tokyo firm of Idemitsu Kozan has concluded a barter deal with the Persians and now has an 18,000 ton tanker the *Nissho Maru* loading at Abadan.

2. You should enquire urgently of the Japanese authorities whether this report is true, and if so you should remind them of their past assurances not to permit purchases of oil from Persia. You should also remind them of the attitude of Her Majesty's Government to such transactions (my telegram No. 1246 of 14th August, 1952), and emphasise that this attitude remains unchanged. If the Japanese raise the point, you should make it clear to them that

the refusal of the Venice Court to sequester the *Miriella* cargo did not involve any decision on the merits of the A.I.O.C.'s claim to ownership of the oil in question which still remains to be decided by the Rome Tribunal. You should urge the Japanese strongly to do all they can to discourage this venture and to make clear that they will not permit import of the oil.

3. Depending upon their reaction, you should, if you think fit remind the Japanese of their dependence on crude supplies from the big oil companies and also stress that their approval of, or connivance in, deals in Persian oil would have a serious effect on Anglo-Japanese relations.

4. Shell are, at A.I.O.C.'s request, asking their local representative for a full report on the firm.

No. 34

ITALIAN POLICY TOWARDS THE OIL DISPUTE

Sir V. Mallet to Mr. Eden. (Received April 12)

(No. 224. Confidential)
(Telegraphic)

Your telegram No. 305: Persian Oil.

In our view the Italian Government will endeavour to steer a course to avoid either international or internal difficulties before the elections. The chances are slightly in favour of their holding their present position until then. But the legal, political and commercial considerations outlined in the following paragraphs are not on our side.

2. As regards the legal position, the Venice decision has strengthened the pressure on the Italian Government to permit deals which now can claim some legal justification. On the other hand, the fact that the main issue is still *sub judice* provides the authorities with an argument for withholding official support to either side. An adverse decision on the main issue would make it impossible for this argument to be maintained.

3. The prime objective of the Ministry of Foreign Affairs is to avoid any overt action which might affect their relations with us, with the Americans, or indeed, with the Persians. In following this policy they have up to now given us unequivocal support, even at the cost of serious disagreement with their colleagues in other departments of the Government. We feel that they will desire to maintain this attitude at least until after the elections. But success in the elections might give the new Government a feeling of freedom of action which they at present lack.

4. There is constant pressure upon the Government for political and commercial reasons, to change their present policy. Apart from the immediate necessity of maintaining political support from the electoral point of view, the Italian Government are anxious to extend their influence in the Middle East; commercially, they are in urgent need of expanding their exports. But more particularly, they fear that our policy may cause them to lose the opportunity of exploiting the Persian market, both as suppliers and as potential purchasers of Persian oil.

5. Should the Persians find some outlet for their oil (e.g., Japan and Argentina), it is most unlikely that the Italians would be willing or able to continue their present co-operation with us. Their present fear that others may gain from breaking the common front might well turn to resentment, if, under our pressure, they should miss what appears to be an opportunity for a profitable deal.

No. 35

JAPANESE PURCHASE OF PERSIAN OIL

Sir E. Denning to Mr. Eden. (Received April 13)

(No. 408. Confidential)
(Telegraphic)

Your telegram No. 451.

The Japanese Ministry of Foreign Affairs confirm that the *Nissho Maru* is now in Abadan and is loading 23,000 kilolitres of kerosene. Both the Ministry of Foreign Affairs and the Ministry of International Trade and Industry state that the *Nissho Maru*'s trip to Abadan was a complete surprise to them and that they were notified of it by the Idemitsu Kozan only to-day. According to the Ministry of Foreign Affairs the transaction is not on a barter basis but will be paid for in dollars. Idemitsu, the managing director of Idemitsu Kozan, is an independent importer of oil products and, as such, receives a dollar allocation from Miti which enables him to import within the limits of that allocation. For the present transaction he is utilising dollars allocated to him under the October, 1952, to March, 1953, Import Budget, but he can make use of them during the current six monthly period beginning 1st April.

2. The Minister called on the Vice-Minister for Foreign Affairs this afternoon and spoke in the sense of paragraph 2 of your telegram under reference. Mr. Okumura said that the action of Mr. Idemitsu was not approved by the Japanese Government, but he did not at this stage know whether the Japanese Government had the legal right to stop the transaction. Mr. Idemitsu had received a dollar allocation to purchase oil products and was entitled to utilise it. The Minister replied that the Japanese Government could surely kill this transaction stone dead by refusing an import licence, or the validation of the dollar credit. Roberts went on to say that it was essential to act quickly. If one transaction were permitted a precedent would be created and it would be extremely difficult for the Japanese Government to refuse further shipments of the same kind. Idemitsu had received a new dollar allocation for the April/September Import Budget which he could use at any time within the next twelve months.

3. Roberts asked the Vice-Minister whether it was really worth while to countenance transactions of this kind for the sake of getting a little cheap oil. Obviously the oil would be cheaper, for people who dealt in stolen property had to sell cheap. He went on to say that both Governments were endeavouring to put their relations on a more friendly and stable basis, but these endeavours would be largely undone if transactions in Persian oil were countenanced by the Japanese Government. Moreover, Japan's other suppliers of mineral oils, whether American or British, were not likely to look kindly upon deals in oil. Roberts accordingly asked the Vice-Minister for an assurance that neither this, nor any future shipment of Persian oil, would be allowed into Japan. The Vice-Minister, who was clearly perturbed, said that he would let us have an answer as soon as possible. His difficulty was that all Cabinet Ministers, including the Prime Minister and the Minister for Foreign Affairs, are away from Tokyo on their election campaign. Before he left, Roberts handed an aide-mémoire to the Vice-Minister which summarised his remarks.

See my immediately following telegram.

No. 36

COMPENSATION TO ANGLO-IRANIAN OIL COMPANY

Foreign Office to Sir V. Mallet (Rome)

(No. 150. Saving. Confidential)
(Telegraphic)

Persian Oil.

Foreign Office,
April 22, 1953.

The Italian Ambassador called on Sir P. Dixon on 21st April. He wished to inform us, on instructions from Rome, that the Persian Prime Minister had recently asked the Italian Ambassador in Tehran whether the Italian Government would have any objection to communicating the following points to Her Majesty's Government:

(1) The Persian Government had already notified Her Majesty's Government, through Mr. Henderson, of their willingness to ear-mark for the A.I.O.C. 25 per cent. of the receipts on the sale of oil and wished to know from the British Government how long these payments should be continued in order to make up the compensation required by the Company. Having had no reply so far from London on this point, Dr. Musaddiq now asked the Italian Government to inform Her Majesty's Government that he would suggest negotiating on the basis of a *de facto* compromise, leaving aside the issue of the principle of compensation covering all lost profits. The British Government should then let him know the global amount of the sum requested by the A.I.O.C. as a fair compensation, and a compromise might be directly reached on this global sum. It should also be understood that, should they fail to reach such a compromise, the two parties would leave it to The Hague Court to fix the global amount to be paid by the Persian Government to the A.I.O.C.; the Court would consider this question on a *de facto* basis not including formulae implying the above-mentioned point of principle.

(2) In view of possible internal repercussions following an agreement reached on the above lines, Dr. Musaddiq wished to know whether he could count on a confidential assurance that the British Government would at least take a non-hostile attitude towards him and his Cabinet, should such difficulties arise.

2. Dixon enquired whether it could be assumed that Dr. Musaddiq had been informed that his communication was being passed on to Her Majesty's Government. The Ambassador thought that this could naturally be assumed. He added that the Italian Government were not in any way acting in a mediatory role: they were merely passing on the communication.

3. Dixon said that at first sight it looked like a variant of earlier proposals for a lump sum settlement, which was quite unacceptable to us.

4. The Ambassador was then asked for elucidation of the obscure passage at the end of Dr. Musaddiq's first point. Signor Brosio was unable to do more than surmise that the intention was to leave the Court unfettered by any particular basis in considering what would constitute a sum for a settlement.

PERSIAN OIL AND THE WORLD OIL SITUATION

Mr. Churchill to Sir R. Makins (Washington)

(No. 482. Secret) *Foreign Office,*
Sir, *April 22, 1953.*

I have to refer to Sir Pierson Dixon's letter to your Excellency of the 2nd April, enclosing a draft of a memorandum on the possible scope for sale of Persian oil and the consequent effects of such sales.

2. I now enclose three copies of a revised version of this memorandum which takes account of the recent threat of Japanese purchases of Persian oil and avoids a certain complacency which ran through the earlier draft. It also refrains from speculating on the possibility and effects of cheap Persian oil entering the United States market, but invites the comments of the United States authorities on this point.

3. The memorandum has been drafted in a form suitable for transmission to the State Department, but your Excellency may prefer to use it as the basis for an exchange of views with the State Department arising out of the anxieties they have repeatedly expressed about the impact of cheap Persian oil on world markets. The object of such discussions would be two-fold: to demonstrate that we have not forgotten the suggestion which the State Department made to Mr. Eden in March that our two Governments should review the long-term oil situation (your telegram No. 526); and to forestall further restless suggestions by the State Department that we should now consider alternative solutions for a settlement of the Persian oil problem, such as the tentative proposals for a "lump sum" settlement which Mr. Linder put to your Excellency on the 1st April (your telegram No. 708).

4. As regards the former objective, we had hoped to use this exchange of views about the possible dangers of sales of cheap Persian oil as a means to convince the Americans that the Persian problem cannot be dealt with in isolation, but must be looked at in the wider perspective of our more important oil interests in the Middle East and elsewhere. As Sir Pierson Dixon suggested in his letter, this might profitably be used as the occasion for bringing the Americans to agree on a joint policy for dealing with Middle East oil problems, and, indeed, with oil problems throughout the world. In view, however, of the recent

decision of the United States Government to continue the anti-trust proceedings against the oil companies, albeit as a civil suit, your Excellency may consider that it would be wiser at this stage not to press the Americans to embark on discussions of a common oil policy, since such a policy can only be really effective if it is translated into the adoption of co-operative and common policies by the major British and American oil companies with overseas interests. I should welcome your advice on this point. Meanwhile, we shall be studying the problem and preparing proposals for a joint oil policy which can be put to the United States Government at the most propitious moment.

5. As regards the suggestion in your telegram No. 708 that, to quieten further restlessness on the part of the State Department regarding Persia, we might offer to send an official to Washington to discuss oil problems of the Middle East, I fear that such a visit would be certain to reach the ears of Dr. Musaddiq, who would no doubt once again be persuaded that Her Majesty's Government and the United States Government were weakening and would harden his attitude accordingly.

6. I think, therefore, that it might be wiser to concentrate for the present on the second objective referred to above, though it would be desirable at the same time, in the exchange of views, to ensure that the Americans take the point that the Persian problem cannot be handled without regard to the world-wide oil situation, with particular reference to the Middle East. In any event, the State Department is unlikely to venture very far into wider discussions of long-term policy until Mr. Dulles returns from his tour of the Middle East in May. But this makes it all the more important that the Americans should be committed, as far as possible, to a firm policy on Persia before Mr. Dulles embarks on his tour.

7. Your Excellency should, therefore, whenever the occasion offers, impress on the State Department my conviction that Her Majesty's Government and the United States Government must resolutely adhere to the proposals made to Dr. Musaddiq on 20th February and not consider any alternative solution. You should leave the State

Department in no doubt that this is the attitude of Her Majesty's Government and that, in particular, a solution based on a "lump sum" settlement would be quite indefensible. It is my firm opinion that, so long as Dr. Musaddiq is in power, there are no alternative solutions which could be defended publicly and which would not have dangerous effects on our other, and now more important, oil interests. We have in fact reached the limit of our concessions and are now down to our last principle: namely, impartial arbitration on the amount of compensation due for the loss of the concession. Our evidence is that Persia's economy, though sagging, is not near breaking point, and can be further stretched for many months yet. Nor is there evidence of any significant advance by the Tudeh Party. There is no doubt, therefore, that our best policy is to leave the proposals of the 20th February on the table for the Persians to pick up at any time, but otherwise not to appear eager to negotiate a settlement. Such tactics already appear to be paying dividends, for example, Dr. Musaddiq's failure to secure the support of the Majlis in his struggle with the Shah. It is not impossible that, if left alone for a sufficient time, internal pressures may in due course compel the Persians to seek a compromise; we already have reports from the United States Ambassador in Tehran of the possibility of a change of régime (your telegram No. 781).

8. In giving the State Department my views on the risks of sales of cheap Persian oil, your Excellency should explain that we have endeavoured to make an honest assessment of the problem and that both Shell and the Anglo-Iranian Oil Company have been consulted and fully support our conclusions. We do not pretend that there is no cause for disquiet, but are, nevertheless, satisfied that there is no justification here for concluding a bad agreement with Persia which would certainly upset our other, more important, concessionary interests. It would be interesting to learn on what the State Department base their fears and whether these are confirmed by the major United States oil companies.

9. Your Excellency should stress the need for caution on the part of the United States Government lest, by openly expressing their anxieties in this matter, they cause some of the major United States companies to panic, either by handling Persian oil themselves to keep out the speculators or by making ill-considered price changes to compete with

odd cargoes of Persian oil, purchased at heavy discounts.

10. Section V of the memorandum draws attention to the dangers of possible pressure by foreign Governments on the major oil companies to import cheap Persian oil or to supply their own oil at reduced prices or even at prices comparable with those offered by the Persians. If such pressure were to be exerted, the companies would no doubt refuse to comply on the grounds that they should not be asked to compete with oil expropriated without compensation. But if, nevertheless, their refusal was followed by threats of direction from foreign Governments, I trust that the United States Government would agree with Her Majesty's Government on the necessity to intervene to protect the interests of their nationals. I should be grateful if your Excellency would seek the views of the State Department on this point.

11. Copies of this despatch are being sent to Her Majesty's Ambassadors at Paris, The Hague, Tokyo, Rome and Buenos Aires.

I am, &c.

(For Mr. Churchill).

Memorandum on Possible Scope for Sale of Persian Oil and Consequent Effects of Such Sales

I.—Introduction

In view of the interest shown by the United States Administration, during the course of Ministers' recent visit to Washington, in the prospects of Persian oil finding its way into world markets, particularly at a time when tankers are in easy supply and freight levels have declined sharply, a fresh analysis has been made of the scope for sales of Persian oil in present circumstances and the potential effects of such sales.

II.—Assumptions

It has been assumed:

- (i) That the present relatively easy supply situation will continue for some time. Supplies of crude are ample; products are also in easy supply, with the exception of aviation spirit which, however, it is thought that Persia is in no position to produce in significant quantity at short notice.
- (ii) That, in the absence of interference by foreign Governments (see also Section V. below), none of the major

oil companies, whether British or American, will be interested in buying Persian oil.

- (iii) That the Persians are prepared to continue offering their oil at prices well below present world prices.

III.—Factors Influencing the Situation

(a) Tankers and Freights

During the past year, substantial additional tanker tonnage has been brought into commission and the tanker market has progressively weakened, so that full tanker employment on other, *i.e.*, non-Persian, business is no longer a barrier to the lifting of Persian oil. It seems reasonable to expect that, barring any deceleration in the expansion of world demand for oil, this situation will continue for at least the next twelve months.

While it is reasonable to assume that well-established operators will remain reluctant to do business with Persia, further and persistent depression of the tanker market will make it difficult for owners to refuse such employment as may be offered. Certainly, if present market trends continue, there should be no great difficulty in securing, for reasonable cost, whether by purchase or by charter, the number of tankers—relatively few in relation to the world tanker fleet—necessary to lift a small Persian output (see also Section IV (v) below).

Low single voyage rates offer—particularly as regards Eastern Hemisphere trade—a minor inducement to the small speculative importer to buy parcels of Persian oil on short-term contracts. Since he is working on a small scale and is only temporarily in the market at all, he needs but few ships and can in present circumstances obtain them below the average rates available to large-scale suppliers who must cover much of their requirements by long-term charters.

Low freight rates constitute an important inducement to anyone interested in the import of Middle East oil into the United States. Compared with United States or Caribbean oil, Middle East oil has to carry the cost of a very long haul. Thus, reductions in tanker freights tend to enhance the competitive prospects for Middle East (including Persian) oil in the United States market proportionately more than in areas remote from United States or Caribbean oil sources.

(b) The Current United States Situation

Even before the latest decline in tanker rates, Middle East crude oil was being imported into the United States at a rate of

some 10 million tons a year. (This compares with a total United States domestic consumption of some 365 million tons a year.) Persian oil at cut prices might attract some buyers, but is unlikely to prove more than a local and temporary phenomenon. What prospects there are can best be assessed on the United States side.

(c) The *Miriella Judgment*

The findings of the Venice court in the *Miriella* case, as a result of which the Italian purchasers (S.U.P.O.R.) are in possession of the oil, will be an encouragement to speculators, even though A.I.O.C.'s main action on ownership will shortly come before the Rome court.

(d) Price Discount

It has been assumed (Section II (iii) above) that the Persians will continue to offer their oil at prices well below world prices. Dr. Musaddiq has announced a special temporary discount in S.U.P.O.R.'s favour of 50 per cent., and there have been persistent reports of heavy discounts being offered. If this remains Persian policy, the attraction of their oil to speculators would be correspondingly increased.

IV.—Possible Demand for Persian Oil

The following are thought to be reasonably reliable estimates of the possible demand for Persian oil by interested countries:

Argentina

(i) There are rumours of a large-scale deal in Persian oil sponsored by the Argentine Government. Although contracts have been placed with the traditional suppliers for this year's full requirements, it is possible that some Persian crude may be bought this year, and more in subsequent years—possibly as much as 1 million tons a year.

(ii) There are some 38 Italian refineries, with a reported total capacity of 13–14 million tons a year. Of this total, about 8 million tons is controlled by major oil companies; about 4·5 million tons is held by "independent" refineries having arrangements with major companies; and about 0·75 million tons is in the hands of small independents, with no known connexions. (Some of these are of negligible size.) Taking account of existing "ties" and contracts, it is doubtful if more than a small proportion of the "independent" total of

54 million tons is free, or could be freed in the short-term, to take Persian crude, even if the owners were interested.

On the other hand, according to various reports, the Italian firms who have made contracts for Persian oil have contracted for about 7 million tons (of which six are thought to be crude) over the next three years.

It is, however, unlikely that all this oil will be lifted (save under direction, see Section V below), and a reasonable estimate for the amount of crude which could find its way into Italian refineries is unlikely to exceed 1 million tons a year.

(iii) As stated above (Section III (b)), some Middle East crude is already being brought into the United States market by major oil companies who are themselves producers of oil. It is considered improbable that Persian fuel oil will prove an attractive import proposition, in view of local, *i.e.*, Western Hemisphere availabilities; equally, there never has been a market for imported white products in the United States. The problem therefore resolves itself into terms of possible crude imports, and in the light of what has been said above about freight rates (Section III (b)) and heavy discounts (Section III (d)), the possibility of some imports of Persian crude into California, the eastern seaboard or even the Gulf, cannot be ruled out. It is difficult to make any tonnage estimate on this side, and we would welcome comment from the United States side.

Japan

(iv) The loading of the Japanese tanker *Nissyo Maru* with Persian oil, probably for Kobe, suggests that there is now a danger that Japan may become a market for Persian oil. An analysis of Japanese refinery capacity, however, shows that, of a total of some 75,000 b/d, the major oil companies, own or control about two-thirds, leaving (at most) about 1 million tons a year of "independent" capacity. It is most unlikely that all of this would handle Persian crude. Vigorous representations are being made to the Japanese Government, who are being asked what steps they can take to prevent traffic in Persian oil.

Rest of World

(v) The prospects of significant sales east of Suez are thought to be inconsiderable. Small amounts of Persian oil might also be absorbed in other directions, *e.g.*, Germany, India, Pakistan, where both currency and price might prove tempting. All in all, however, the amounts are unlikely to be significant compared with the possibilities discussed above.

Summary of Prospects

(vi) Taking account of the above possible outlets, on the basis of:

	Million Tons Per Annum
Argentine ...	0·5/1·0
Italy ...	1·0
Japan ...	0·5
Rest of world (excluding United States) (say) ...	1·0

a "best estimate" for total possible offtake of Persian oil in present circumstances, exclusive of any amounts which might be imported into the United States and on the assumptions set out in Section II would be (say) 3·5 million tons a year. In terms of shipping, this would require about 30 T2, *i.e.*, standard size, tankers. In practice, the actual offtake may prove to be less, since buyers of Persian oil must have facilities at their disposal in the countries to which it is shipped, to refine it (if it is crude oil) and to deliver refined products (whether made locally or imported from Abadan) to consumers. There is no reason to expect that the internationally operating oil companies, who own or dispose of the major part of existing refining and distribution facilities in the Eastern Hemisphere, will be interested (see Section II (ii) above).

NOTE.—3·5 million tons a year would displace an equivalent sale by the established companies representing a value of trade (allowing for both oil and freight) of about £25 million.

V.—Interference/Compulsion

A development not taken into account in the above assessment but which should not be overlooked, is the possibility of "interference," in the form of official pressure, with ordinary commercial operations. There

is a possibility that, if Persian oil did come on the market at "bargain" prices, some foreign Governments who are in acute currency or other difficulties, might attempt to compel the companies supplying and marketing in these countries to import this Persian oil, or to supply their oil at reduced prices, or even at prices comparable to those offered by the Persians. As an illustration, a case might arise where, e.g., France, seeing cheap Persian crude going into Italy, and being short of sterling or dollars, would insist that her regular suppliers should, if not actually quote her at Persian prices, make some gesture by way of price reduction, so that the Government could stand up to internal criticism. Variations on this situation are not hard to imagine. In the event of such pressure materialising, which the companies would assuredly resist on the grounds that they were being asked to compete with oil expropriated without compensation, Her Majesty's Government (and no doubt the American and Dutch Governments also) would have to consider urgently what attitude to adopt, and even what action they could take to help their own nationals. Should foreign governmental pressure on the oil companies assume serious proportions, the chances of Persian oil being absorbed would be correspondingly increased.

VI.—World Prices

It is not thought that any such amounts of Persian oil as may find their way into the United States market would affect United States internal price levels. As regards other areas, while the long-term prospects for world oil prices are admittedly uncertain, it is not thought that the entry of Persian oil into world markets—spread, as it is likely to be, over a number of countries—is of itself likely to bring about any break in the existing price structure. The amount is small compared with current Middle East production (over 100 million tons a year).

As pointed out above (Section IV (v)), the major part of the consumption in the Eastern Hemisphere is supplied by companies who have large-scale production in, and marketing interests throughout, the area and have obvious reasons, including concessionary reasons, for desiring price stability. Where a small concern is able to handle Persian oil acquired cheaply, there is likely to be local price disturbance, but such local situations are nothing new and should

not lead responsible suppliers into making reductions in their f.o.b. prices at producing centres.

Nevertheless, as things are to-day, the presence of "cut-price" Persian oil will be a disturbing factor locally, and may have much wider repercussions and unpleasant consequences in the circumstances envisaged in Section V above.

In our view, this serves to emphasise the necessity for close consultation between Her Majesty's Government and the United States Administration in all these matters.

VII.—Conclusions

The following conclusions may be drawn from the above rapid survey:—

- (i) So long as oil supplies generally remain easy—and there are no immediate prospects of shortage—Persian oil can be marketed only at cut prices or on specially favourable terms.
- (ii) On the other hand, outlets—in the sense of markets, refinery and distribution facilities, &c.—are likely to be the governing factor, rather than availability.
- (iii) If existing commercial arrangements, and the normal supply/demand mechanism, are left undisturbed, the amounts of Persian oil likely to find their way on to the world market will be relatively small as compared with Middle East production (100 million tons a year). They could amount to 3·5 million tons a year in "normal" markets, i.e., excluding United States.
- (iv) Such tonnages are marginal in terms of world supply and demand, and are unlikely, so long as the major companies remain unmoved, to upset the present world price structure.
- (v) Nevertheless, there are undoubtedly dangers inherent in the situation, e.g., more might be sold, or foreign Governments, for currency or other reasons, might feel compelled to insist that major companies with local refineries and their own sources of oil should either themselves import cheap Persian oil, or reduce their own prices proportionately.
- (vi) The immediate need is to take account of such possible risks in early discussions with the United States Administration, as they underline the need for close consultation, and policy co-ordination on oil matters.

No. 38
AMERICAN OIL COMPANIES AND ANGLO-IRANIAN'S PERSIAN INTERESTS

Sir G. Jebb to Mr. Eden. (Received April 22)
(No. 330. Confidential)
(Telegraphic)

New York,
April 22, 1953.

Following for Maud from Butler.

Humphrey and Dulles have been talking to the American oil companies re their taking over Anglo-Iranian's Persian interest. Hopwood knows the position as it existed a few days ago and I expect to be able to cable tomorrow about the American companies reactions.

2. Meanwhile, I gather that Humphrey may mention the matter to the Chancellor and it might be as well if he were warned.

3. The scheme apparently contemplates Anglo-Iranian and Shell being customers of the American syndicate. I would not rate the practicability of the scheme at all high and, politically, I would have thought that it would be quite impossible to sell it to the British public. Certainly the present timing would appear most unhappy.

Please pass advance copy to Maud, Ministry of Fuel and Power.
Please send any reply to Washington.

No. 39

UNITED STATES COMPANIES AND PERSIAN OIL

(1)

Foreign Office to Sir O. Harvey (Paris)
(No. 431. Confidential)
(Telegraphic)

Foreign Office,
April 23, 1953.

United Kingdom Delegation, New York, telegram No. 330 [of 22nd April]: Persian Oil. Following for Minister of State from Strang.

You may wish to warn the Chancellor that Humphrey may raise this matter, or you may find an opportunity of telling Dulles that we have had this report from the United States Companies and feel he should know at once what our attitude would be to such a proposal.

2. We should be strongly opposed to any scheme of this sort for the following reasons:
 - (a) It would be regarded as evidence of American attempts to reduce our influence in the Middle East and would have a bad effect on Anglo-American relations.
 - (b) Musaddiq would be getting away with a profitable long-term settlement without having had to submit to an impartial adjudication on compensation for an expropriated concession. This would seriously jeopardise concessionary and other investments throughout the world.
 - (c) We would be increasing our dependence on dollar oil.
 - (d) There is also the Parliamentary aspect, as to which you will be able to judge.

3. The American companies are hardly likely to welcome this proposal, as they would be faced with the double burden of striking a hard commercial bargain with Musaddiq and a liability to pay compensation of an unlimited size. Moreover, there is no reason to believe that Musaddiq would be any more willing or able to give an American syndicate reasonable terms than he has offered us.

(2)

Sir O. Harvey to Mr. Eden. (Received April 24)
(No. 151. Confidential)
(Telegraphic)

Paris,
April 24, 1953.

Your telegram No. 431: Persian Oil.

Following for Strang from Minister of State.

Chancellor took this up this morning with Humphrey, and spoke on the lines of paragraph 2 of your telegram under reference stressing (b) and touching on (c).

2. It transpired that the proposal was Humphrey's own, and that he had spent a good deal of time discussing it with the United States oil companies. He was therefore naturally disappointed at our reception of it, and in order to soothe his feelings the Chancellor agreed

to confirm with his colleagues in London that they shared his objections. He left him in no doubt that it seemed highly unlikely that Her Majesty's Government could possibly accept the proposal.

3. You will no doubt arrange for the Ministries concerned to be consulted and for appropriate instructions to be sent to Her Majesty's Ambassador at Washington to convey the considered views of Her Majesty's Government to the United States Government.

(3)

Foreign Office to Sir R. Makins (Washington)

(No. 1984. Confidential)
(Telegraphic)

My telegram No. 1911 [of April 30]: Persian Oil.

Please pass following personal message from the Chancellor to Mr. Humphrey.

I have now been able to discuss with my colleagues your suggestion that we might find some solution to the Persian problem on the basis of the American Oil Companies taking over the Persian interests of the A.I.O.C. I would like to repeat my thanks to you for the consideration which you personally have given to this possibility.

As I expected, however, my colleagues share to the full the misgivings about its implications which I expressed to you in Paris, and are opposed to an attempt to devise a solution along these lines for the reasons which I gave.

I am seeing Lew Douglas this week and will be writing to you whenever I have anything worthwhile.

No. 40

"NISSHO MARU" CASE : JAPANESE GOVERNMENT TO DISCOURAGE THE PURCHASE OF PERSIAN OIL

Sir E. Denning to Mr. Eden. (Received April 25)

(No. 463. Confidential)
(Telegraphic)

My immediately preceding telegram.

Following is text of aide-mémoire numbered 300/E6 and dated April 25:—

Upon investigations of the *Nissho Maru* case, which have been undertaken with utmost attention, it has come to the knowledge of the Ministry of Foreign Affairs that the present deal by the Idemitsu Kosan Company was carried out within the framework wherein the relevant laws and regulations in this country allow individual traders to conduct the transactions of this kind without being subjected to any specific sanction by the governmental authorities. Accordingly, the authorities concerned were neither in a position to get informed of the transaction nor were empowered to intervene in it administratively.

Meanwhile, it is to be noted that it is not the intention of the Government of Japan to encourage or facilitate purchases of Iranian oil by Japanese firms in the present circumstances. Whatever steps, which may be open to the Government of Japan within the purview of their administrative power, are under study at present in order to deal with such a case in the future.

EP 1533/174

No. 41

JAPANESE PURCHASE OF OIL : BRITISH REPRESENTATIONS

*Department of State,
Washington,
April 29, 1953.*

(Confidential)

The Department of State has considered the British request that the United States Government make representations to the Japanese Government not to permit Japanese firms to purchase oil from Iran and not to permit the import of a quantity of Iranian oil recently loaded on the Japanese tanker *Nissho Maru*.

The United States Government has made it known publicly on a number of occasions that the decision whether or not purchases of oil from Iran should be made must be left to such individuals or firms as may be considering them and to be determined upon their own judgment; also that the legal risks involved are matters to be resolved by the individuals or firms concerned. In the light of these statements it is regretted that the United States must refrain from approaching the Japanese Government in support of the British representations.

EP 1531/266

No. 42

MESSAGE FROM THE UNITED STATES TREASURY

(1)

The Hon. G. R. Humphrey to Mr. R. A. Butler

(Confidential)
Sir,

*Washington,
May 6, 1953.*

Your message through the Embassy was received today.

It is a great disappointment to me. The more I thought of it the more I felt that we could establish the principle which is so important to you as well as to the oil companies and to all future American foreign investors in a stronger and perhaps even better way than might be possible through any other procedure.

The very fact that you have sufficient title to actually sell it for substantial consideration is most persuasive in itself. I also thought we might include in the document, if a deal proved feasible with Iran, a paragraph acknowledging your right to receive the consideration and confirming your status in words that might be quite definite. It would, of course, be just as advantageous for the oil companies to make this as strong as possible as it would be for you to have it.

I hate to drop the matter entirely at this stage and before doing so, if you have any other or further suggestion that we might follow, can you let me know.

In the meantime, of course, either our State Department or yours is perfectly free to move in any way and at any time that may seem desirable to them entirely without reference to this suggestion.

With every good wish, and highest regards to you.

Sincerely,

GEORGE R. HUMPHREY.

EP 1531/266

(2)

MESSAGE TO THE SECRETARY OF THE UNITED STATES TREASURY

Mr. R. A. Butler to the Hon. G. Humphrey

(Confidential)
Sir,

May 18, 1953.

Many thanks for your letter of the 6th May about the Persian oil dispute.

In considering your suggestion in London we were impressed by three distinct considerations. Firstly there are the very serious practical difficulties involved in any attempt to work out a scheme along the lines you suggest which would be fair to the oil companies concerned and acceptable both to our two Governments and to the Persians. Secondly we can see grave political difficulties at home if we appear to be surrendering important British interests in the Middle East to American Companies. And thirdly we are convinced that all hopes of securing a tolerable settlement out of Musaddiq would disappear if at this stage anything was done which gave him the impression that his intransigence was again paying dividends and that his rejection of our joint proposals of the 20th February was the prelude to still further concessions from our side.

These considerations seemed to us to be conclusive but if you feel you would like to telegraph or write anything further it will have my personal attention. I would only add that we would wish to preserve the strictest possible secrecy as it would be disastrous if Musaddiq was given any reason to believe that new proposals were in the offing.

R. A. BUTLER.

No. 43

PRESIDENT EISENHOWER AS ARBITER : SUGGESTION BY
Dr. MUSADDIQ

(1)

Sir R. Makins to Mr. Eden. (Received May 9)

(No. 995. Confidential)
(Telegraphic)

Persian oil.

Following memorandum was handed to a member of my staff in the State Department today.

2. During the course of a conversation on May 3 about various matters, Prime Minister Musaddiq suddenly put forward an idea to Ambassador Henderson for solution of the Anglo-Iranian oil dispute. He stated he was willing to have the dispute settled by an arbiter "whom Britain and Iran could trust". He suggested President Eisenhower as arbiter. The Ambassador replied that he had no authority to convey any additional messages regarding settlement of the oil dispute and that the appropriate way to make suggestions in this regard should better be by direct contact with the British or through the Swiss. Musaddiq said he did not wish to make "formal suggestions" without some hope that they might be acceptable, but urged that at least Ambassador Henderson report the conversation to Washington. The Ambassador agreed providing it was clearly understood that Dr. Musaddiq was not making any proposals to him and that the conversation was not to be considered as reviving discussions regarding settlement of the oil problem. The Prime Minister said that the only decision President Eisenhower would be called upon to make would be the amount of compensation due after deduction of Persia's counter-claims. He said that if the British indicated a willingness to abide by a decision on this matter by President Eisenhower, he would ask the Majlis to give him full powers to go to the United States to lay Persia's case before the President. After arrival in the United States, he would request the Majlis to permit him to transfer his full powers to the President. He expressed confidence that if the British would be willing to give full powers to the President, the Majlis would follow his lead in this matter.

3. Department said that it was only after long consideration that they had decided to communicate to us this new approach from Musaddiq. They were not in a position to say how serious he was in putting it forward, and they passed it to us without any recommendation. No decision had been taken as to the response the United States Government would make if Her Majesty's Government should agree to invite the President to arbitrate.

4. They would be grateful for an early indication of your attitude in case Musaddiq should revert to the subject with Henderson.

(2)

COMMENTS ON Dr. MUSADDIQ'S NEW SUGGESTION FOR
AN ARBITER

Foreign Office to Sir R. Makins (Washington)

(No. 2133. Confidential)
(Telegraphic)

Your telegram No. 995 [of May 8]: Persian oil.

Though it has the appearance of reasonableness, Musaddiq's suggestion must be considered in the context of past events. We are bound to assume that even if he were to agree at first to arbitration on such wide terms of reference, he would, when it came to the point, refuse to allow the President to consider the Company's claim for loss of the concession and perhaps even to question the validity of Persia's counter-claims. He would try his usual technique of appeals and political blackmail.

2. No doubt one reason for this proposal is the hope that it will lead to a wedge being driven between the United States and the United Kingdom.

3. We do not wish to enter into negotiations about this proposal, which Musaddiq could and would drag out interminably, in order to appear to be in negotiations with us so as to gain support in his difficulties with the Shah and the Opposition.

4. I hope that the State Department will agree that Musaddiq's suggestion is not reasonable, and that from the point of view of the United States Government themselves it is unacceptable. It should not be necessary for Henderson to say that it is unacceptable to Her Majesty's Government.

No. 44

REPORT ON THE PRESENT POLITICAL SITUATION IN IRAN
PREPARED BY THE UNITED STATES AMBASSADOR AT TEHRAN
ON MAY 8 (COMMUNICATED BY THE UNITED STATES EMBASSY
MAY 11)

Foreign Office to Sir R. Makins (Washington)

(No. 1656. Saving. Confidential)
(Telegraphic)

Foreign Office,
May 11, 1953.

He considers Musaddiq's position definitely weaker than before he began his struggle against the Shah last February—this despite the fact that at present the Court's position appears to be weakening as the result of its struggle with Musaddiq and that the opposition in the Majlis has been unable to mobilise its resources effectively against him.

2. It is generally considered in Iran that the appointment of Amini as Acting Minister of Court is a victory for the Prime Minister. Since assuming his new office, Amini has been acting as intermediary between the Shah and the Prime Minister and has been issuing a number of conciliatory and optimistic, although at times conflicting, statements concerning progress achieved in reaching an understanding between Musaddiq and the Court. There is some doubt, however, whether Amini is actually working in either the Prime Minister's or the Shah's interests. It is not entirely clear exactly what the objectives of the powerful Kajar Amini family are but Amini's activities may subsequently prove to have further weakened the Prime Minister's position without strengthening that of the Shah.

3. The Majlis opposition has not yet been able to take an effective offensive. However, it has not yet been dispersed and still prevents, through guerrilla tactics, the Government from engaging in constructive work and the Majlis from achieving a quorum. Should even the optimistic predictions of the pro-Government circles that the Majlis will be able to meet within the next few days be borne out, there is justified doubt that it would be able to take action which could appreciably strengthen the position of the Prime Minister. For example, unless something unexpected happens the Government may find it extremely difficult to deprive Baqai of Parliamentary immunity. Following the official communiqué charging Baqai with complicity in the murder of Police Chief Afshartus, the Government's failure in this regard would reflect on its strength. In addition, the Government will encounter stubborn opposition in endeavouring to get the Majlis' unqualified approval of the Committee of Eight's report on substitute measures for limiting the powers of the Shah. A further indication of Musaddiq's decline in prestige and authority in the Majlis is the fact that General Zahedi has been receiving on the whole a sympathetic reception by Majlis members during his asylum there.

4. Musaddiq's basic support among political leaders has shifted sharply during the past six months with the majority of the original factions of the National Movement now opposing him either openly or tacitly. There are even reports now that there is friction appearing between the Prime Minister and the Iran Party which is one of the last of the factions of the National Movement which still give him support. Musaddiq's support seems now to be based largely on the security forces which he has admitted to Ambassador Henderson that he does not trust, the Government bureaucracy including the recently appointed Governor-General whose loyalty is still untested, the Government's monopoly of radio, and a variety of groups and individuals with widely divergent interests such as some of the prominent Kajar and merchant families and the Qashqai Khans. In times of stress the Tudeh also provides him support when it serves the party's interests. His great reputation as a Nationalist leader working to liberate Iran from foreign control is still his most important source of strength. The fact that he has been Prime Minister for two years also provides him with a certain degree of prestige with the rank and file of the citizenry. None the less, his popularity even with the Majlis has been weakened by his failure to receive the cooperation of the country's prominent political leaders, by his use of mass demonstrations to pressurise the opposition, by his inability to solve the oil problem in a way economically advantageous to Iran, by the economic deterioration of the country, and by his resort to martial law to maintain order.

5. The fact remains, however, that Musaddiq still remains Iran's outstanding political figure and that his opponents have yet to evidence sufficient courage or unity to constitute a serious threat to him. The greatest threat which Ambassador Henderson sees to him at the moment is that coming from the Amini group working from within. However, this group would need the most exceptional skill if either by peaceful methods or by force it is to succeed in overthrowing Musaddiq. To an extent General Zahedi has recovered his position by taking asylum in the Majlis and by explaining his case individually to the press and Majlis leaders. As yet, however, the General has not succeeded in winning the Shah's support—a support which he has considered essential if he is to succeed. Mozzami is now being discussed in certain circles as a possible successor to Musaddiq who would be acceptable to the National Movement as well as to various of the Movement's opponents. He is a wily deputy who in the past has often endeavoured to present himself as a middle-of-the-road candidate for office. Ambassador Henderson feels that he may eventually develop into a real threat to the Prime Minister's position. He is feared and respected by the Shah, reportedly because the latter thinks he is a British agent.

EP 1533/200

No. 45

**TEXT OF JAPANESE GOVERNMENT'S AIDE-MÉMOIRE REGARDING
THE PURCHASE BY JAPANESE FIRMS OF PERSIAN OIL**

Sir E. Denning to Mr. Eden. (Received May 13)(No. 527. Confidential)
(Telegraphic)Tokyo,
May 13, 1953.

My immediately preceding telegram.

1. In the aide-mémoire of the Ministry of Foreign Affairs of April 25, 1953, it was stated that study was being made of whatever steps might be open to the Japanese Government, within the purview of its administrative powers, to deal with future cases of the purchase of Persian oil by Japanese firms. Decision has been made as follows: "Necessary measures shall be taken to suspend, for the time being, the allocation of foreign exchange funds after May 1, 1953, for the importation of oil from Persia".

2. With regard to foreign exchange fund allocations already at the disposal of individual traders prior to May 1, 1953, there are hardly any administrative steps open to the Japanese Government to impose retroactive restrictions as to the country of origin of imports.

3. The above mentioned decision was made by the Japanese Government, animated by the sincere desire to promote friendly relations between Japan and Great Britain. However, it should be noted that the prevailing comparatively high cost of oil in Japan is likely to be regarded as due to the current system of importation of foreign oil. This has led to considerable support for efforts to introduce a competitive element. It is most desirable that the factors governing the international price of oil should be subject to further examination in light of the above situation.

Please see my immediately following telegram.

EP 1533/204

No. 46

Dr. MUSADDIQ SUGGESTIONS FOR OIL NEGOTIATIONS

Sir Winston Churchill to Sir V. Mallet (Rome)(No. 178. Confidential)
Sir,Foreign Office.
May 16, 1953.

The Italian Ambassador called on May 15 at Sir Pierson Dixon's request in order to receive a reply to the communication in the matter of the Persian oil dispute which he had made on April 21, and of which Your Excellency was informed in my telegram No. 150 Saving of April 22.

2. Sir Pierson Dixon handed Signor Brosio the enclosed memorandum for the guidance of his Government and added that Her Majesty's Government did not wish to ask the Italian Government to transmit a reply on their behalf to Dr. Musaddiq. It would be for the Italian Government to decide whether to tell Dr. Musaddiq of our reactions, but it was our hope that they might prefer to tell him that they had seen no point in transmitting the message to Her Majesty's Government. The Ambassador took a note of these points.

3. In discussion, the following points emerged.

4. The Ambassador said that Signor Theodoli had recently returned from Rome where he had learned that the Court official attached to Queen Suraya had informed the Palazzo Chigi that in his view, and in that of the Minister of the Court, Musaddiq's approach through the Italians was a genuine one. The Palazzo Chigi had formed the view that Dr. Musaddiq attached importance to two main points. The first was that he did not wish to concede in advance the principle of compensation for loss of future profits. The second was that he wanted to be sure than any sum awarded in compensation would not be crippling to Persia's economy. The Palazzo Chigi now thought that Musaddiq would be prepared to drop his insistence on the first point if he could receive assurances on the second.

5. This led Sir Pierson Dixon to explain to His Excellency the nature of the proposals of February 20. We had been well aware when we framed them of Dr. Musaddiq's apprehensions about the effect of a possible crippling award on Persia's economy. The proposals safeguarded Persia against any such possibility. If Dr. Musaddiq genuinely wanted a fair and reasonable settlement, the February 20 proposals undoubtedly provided for it. Dr. Musaddiq's double object was no doubt to impress the Italian Government of his reasonableness and to be able to tell his own people that he was in negotiation. The Ambassador quite saw this point.

6. Before leaving, the Ambassador explained the position of his own Government in regard to the granting of licences for Persian oil. The whole question was now under study and would in due course be referred to the Italian Cabinet. The Italians saw clearly that there

was a conflict between political considerations and economic. On the political side they wanted to do nothing which would embarrass Her Majesty's Government. On the economic side it was becoming increasingly difficult to resist pressure from Italian interests. The Super Company, unlike Count Della Zonca, were a respectable concern backed by big interests. Moreover the Italian Government themselves had an interest in barter deals between Italy and Persia, not because they preferred Persian oil to other oils, but because such deals would be a means of saving Italy dollars, which she was using at the rate of \$1 million a day. The Ambassador averred however, that the Italian Government, far from whipping up a public campaign in favour of deal's with Persia, were doing all they could to restrain it.

7. The Ambassador was reminded how important we considered it to preserve the common front and that Dr. Musaddiq's position was becoming increasingly difficult. This was a success for the policy of standing on the fair and reasonable proposals made on February 20. Sir Pierson Dixon hoped that on the broadest grounds the Italians would continue to support us in this stand.

8. I am instructing Her Majesty's Ambassador, at Washington, to whom I am copying this despatch, to inform the United States Government of this exchange.

I have, &c.
WINSTON CHURCHILL.

No. 47

**TELEGRAM FROM THE UNITED STATES AMBASSADOR AT TEHRAN
OF JUNE 2 REPORTING HIS CONVERSATION WITH MUSADDIQ
ON MAY 31**

Foreign Office to Sir R. Makins (Washington)(No. 1936. Saving. Confidential)
(Telegraphic)

On the occasion of calling to take leave of Musaddiq on May 31, the United States Ambassador had a two and a half hour conversation which he described as "long, disorganised and almost purposeless as usual". Musaddiq spoke at length on compensation, shifting his ground several times. Mr. Henderson was more pessimistic than before about the possibility of any settlement with the present Government, his impression being strongly that for the present at least Musaddiq was not thinking of any agreement which would result in Persia's paying an appreciable amount of compensation. When Mr. Henderson told Musaddiq he was thinking in quite unrealistic terms, the latter replied that it would be better if the United States forgot entirely about compensation. He was no longer interested in a settlement of the oil dispute. He felt certain that no settlement acceptable to the Persian people was possible at the present time in view of the British attitude. He must, however, know clearly, once and for all, and as soon as possible, whether, in the absence of agreement on compensation, the United States would be willing to give Persia the necessary financial and economic assistance in the form of an interest-paying loan. If the answer was in the negative he hoped that the United States would at least remain neutral and friendly towards Persia. A negative answer would, however, certainly mean the eventual fall from power of the Government and its replacement by a Communist-dominated Government, or by a British-dominated Government which would soon be followed by a Communist-dominated Government. The present Persian Government was the only type which desired co-operation with the United States. A British or Soviet dominated Government would speedily eliminate the United States from Persia. Musaddiq hoped Henderson could persuade his Government to give the necessary financial and economic assistance.

2. Henderson said that, in his opinion, it would be extremely difficult for the United States to give this assistance in the absence of any sign of willingness on the part of the Persian Government eventually to pay a substantial amount of compensation. Musaddiq insisted that it was not possible to pay more compensation than the value of the Company's assets in Persia as shown in the Company's latest balance sheet. Henderson said this was so unrealistic that there was no purpose in discussing it. Musaddiq again said that it would be better to forget the oil problem. He wanted the United States to define its attitude towards Persia without any reference at all to the oil problem. Henderson closed the conversation by saying that Musaddiq's present attitude seemed quite clear. He would report it to his Government but could not be sanguine about the possibility of Persia receiving substantial assistance in present circumstances. Musaddiq said the decision was, of course, one for the United States Government to take. He hoped, however, that the United States Government would understand what might be the results of its decision.

ADDRESS BROADCAST BY DR. MUSADDIQ ON MARCH 20, 1953

(Communicated by the United States Embassy, June 10)

My dear Compatriots:

It is an honour for me to be talking to you on this day when the endeavours of the noble Iranian people in crushing oppression and tyranny have come to fruition and when imperialism has been uprooted by the people. During the past two years I have been witnessing the sacred and gallant struggle of my compatriots for the attainment of independence and the eradication of foreign influence from our land with a view to reviving the ancient glories of Iran. Thanks to the Almighty, I have weathered the storms and survived this eventful period which I have shared with you. I must express my gratitude to you for your full protection and support given to me at all times. I am not happy simply because I have lived for another year among my people or that I may live a few years more. I am happy because despite all the provocative activities of the cunning hirelings of foreigners, I have lived through the current year and am here on this glorious day on which the foundation of the nationalisation of our oil industry was led by the people, to submit a report on the actions with which I have been entrusted by the will of the people.

Two years ago on such a day a few others who thought in the same terms as I together with myself managed to have the law of the nationalisation of the oil industry approved by the Majlis. We did this only through the strength and inspiration which we derived from the gallant people of Iran. The proposal that we managed to have passed by the Majlis on that historic day of March 20, 1951, embodied the aspirations of the patriotic people of Iran and obstructed the intentions of greedy foreigners. The proposal contained the principle of the nationalisation of the oil industry throughout the country which was approved and declared as follows:

In the name of the prosperity of the Iranian people and with a view to contributing to the maintenance of world peace, we hereby propose that the oil industry in Iran be nationalised throughout the country and all operations including exploration and exploitation to be placed under the control of the Government!

It was on such a day that the foundation of a momentous change in the political life of our dear country which is connected with the welfare of the Iranian people and world peace was laid.

With the approval of the law of the nationalisation of the oil industry throughout the country, the sinister agreement of 1933 which was imposed on us became null and void and was discarded forever. This agreement was concluded through the ignorance and deception of the Iranian people and with the participation of a few instruments of the Government in power and was designed to enslave the Iranian people. Not a single person had said a word on the harms that the agreement entailed.

After 16 years of imprisonment and exile the valiant people of Tehran succeeded in electing me as their deputy in the 14th Majlis. Eleven years had elapsed since the approval and implementation of the 1933 agreement when on October 29, 1944, I pointed out the defects and the economic and political dangers of this agreement to the Iranian people. I particularly explained the tricks and deceptions of the British imperialistic policy to secure a 60-year extension of the concession that was imposed on Iran and the tremendous losses that were suffered by the impoverished and aggrieved people of Iran during this period.

On the surface the 1933 agreement was an economic one, but as it is very difficult these days to separate economic matters from political ones which have become so intermingled, the British had gained numerous advantages to further their imperialistic policy in Iran under the guise of economic matters pertaining to the oil question. For instance, the ex-A.I.O.C. through the help of the previous puppet Governments faithfully adhered to the principle of recruiting cheap labour in Iran for its operations. The idea was to make the most possible use of Iranian labour and at the same time reduce the Company's expenditure of the pound sterling to a minimum.

It was in the pursuance of this policy that the ex-A.I.O.C. interfered in bringing Governments to power; so much so that the Minister of Finance during the war fixed the rate of the pound sterling at twice its real value. The ex-A.I.O.C. also obstructed the execution of productive, agricultural, and industrial projects in Iran, particularly in Khuzistan by different means so that there would always be a large number of unemployed people prepared to work under any conditions offered to them. Thus the concession which was an economic one on the surface meant in fact the economic and political slavery of the Iranian people.

When the imperialistic policy learned of my protests in the 14th Majlis against the 1933 agreement, it decided to prevent my return to the 15th Majlis at all costs with the hope of stifling the voice of the Iranian people and saving the 1933 agreement from the danger with which it was faced. It had particularly decided to impose a new agreement by the name of supplementary agreement on the Iranian people.

The dismal story of the 15th elections in Tehran and the fraudulent activities of the then government on the instruction of the ex-A.I.O.C. and in protection of the 1933 agreement is too well known to my dear compatriots. It was towards the end of the 15th term of the

Majlis that the Gass-Golshayan supplementary agreement was presented by the then Government to the Majlis in an attempt to perpetuate the 1933 agreement. True to its traditions, the imperialistic policy failed to take into account the Iranian people, and it was this very miscalculation which fortunately foiled its plans. A number of nationalist elements in the Majlis together with myself who received the support of all my dear compatriots outside the Majlis, rose against the supplementary agreement, and the 15th Majlis did not have time to approve it.

The imperialistic policy which felt the growing danger that threatened the supplementary agreement and the 1933 agreement brought an oppressive Government to power by resorting to all sorts of tricks so that the 16th elections might be conducted by that Government. The Government in question performed what was expected of it and conducted the elections in Tehran in the midst of corruption, forgery and fraud. The gallant people of Tehran, however, fought against such fraudulent elections which were cancelled under the pressure of public opinion while the ballots were being read out. It was at this time that the sense of the vigilance of the people in safeguarding their fundamental rights increased, and when new elections took place, the people of Tehran succeeded in sending a few true representatives who belonged to the National Front to the 16th Majlis. The titanic success which was achieved two years ago on such a day in tearing up the 1933 agreement was due to the vigilance and sacrifices of the people who held numerous meetings at that time.

The first reaction of the Company to the nationalisation of the oil industry was the strike which occurred in Abadan, Bandar Mashur, and Masjed Soleiman on April 20 at the instigation of the Company as a result of which a number of innocent Iranian workers were either killed or injured. While the Company was engaged in such activities, my collaborators and I were busy in the Parliamentary Oil Committee to draft the comprehensive law for the implementation of the nationalisation of the oil industry. The law which contained nine articles was prepared and presented to the Majlis. Before it was discussed, however, a number of deputies suggested in the private session of the 16th Majlis that I should assume office as Prime Minister. I, who had proposed the law for the implementation of the nationalisation of the oil industry accepted this offer despite my weak constitution and with full knowledge of the dangers and difficulties that existed. I did not wish my opponents to allege that I had shirked responsibility when it came to the attainment of our national aspirations. The only condition that I attached to my acceptance of the offer was that our proposal concerning the implementation of the nationalisation of the oil industry be approved by the Majlis before I assumed office as Prime Minister.

This condition was put forward by me in order to eliminate the danger of suspense with which the approval of the nine-article law might have met in the Majlis. I feared that by being Prime Minister I would be unable to follow up that law in the Majlis, and it may well be that the offer was made to me at that delicate and crucial moment because of this. At any rate, the nine-article law was approved by the Majlis on April 30 and the next day I assumed office as Prime Minister solely motivated by the desire to carry out that law.

Two years have elapsed since the nationalisation of the oil industry. Despite the fact that I have taken every appropriate opportunity to inform my dear compatriots of the views and the steps taken by the Government, I should like to bring to their attention, briefly the difficult stages through which we have passed, thanks to the sustained support of my countrymen in implementing the Nationalisation Law.

The first difficult stage concerned Article 2 of the Nationalisation Law on taking over full control from the ex-A.I.O.C. which had employed all its technical and other facilities in Khuzistan to prevent us from assuming control. The Company at least hoped that a series of unpleasant incidents would accompany the process of taking control by us. Certain provisions in Articles 2 and 7 of the Nationalisation Law necessitated discussions with the ex-A.I.O.C., particularly at that time when the Company seemed to be favourably disposed to such discussions. On May 30, 1951, the ex-A.I.O.C. was asked to present its representatives and it was stipulated that the discussions would be within the framework of the Nationalisation Law. It was hoped that such discussions would facilitate the action of taking over control from the ex-A.I.O.C.

A delegation headed by Jackson was presented and after a few sessions it submitted a series of proposals to the Iranian delegation which consisted of the representatives of the Joint Oil Committee and Government representatives. These proposals were absolutely incompatible with the Nationalisation Law and were in fact most childish. Under cleverly worded sentences and phrases, the proposals aimed at stabilising the former position of the ex-A.I.O.C. Thus the ill designs of the ex-A.I.O.C. in preventing us from taking over full control became evident and the Government took it upon itself to fully implement the provisions of the law. On June 20, 1951, the Government instructed its representatives in Abadan to take over control from the ex-A.I.O.C.

Thanks to the care of Government officials and the representatives of the Joint Oil Committee who had been specially sent to Khuzistan by the Government, and thanks to the cooperation of the workers and employees of the oil region and the patriotic people of Khuzistan, the action of taking over control from the ex-A.I.O.C. proceeded without a single hitch and was attended by a brilliant success. If I do not say anything at this stage about parachutists in Cyprus and the arrival of British warships near Abadan, it is because I am convinced that the valiant people of Iran who were engaged in a hard struggle of political and economic survival were totally undaunted by these measures. As a further mark of our good will, we bore two fundamental points in mind while we were taking over control from

the ex-A.I.O.C. We wanted to arrange for the uninterrupted flow of the Iranian oil to the free markets of the world, and we also wanted to make use of the experience of real oil experts who were of a foreign nationality in operating the gigantic oil installations. To meet these views, we suggested that British oil tankers calling at Abadan and Bandar Mashur carry the oil against a receipt to the effect that they had received their oil from the National Iranian Oil Company and that they would settle the relevant accounts.

We also invited all the foreign experts to continue their services on the basis of individual contracts with the National Iranian Oil Company with the same salaries and privileges that had been enjoyed by them. Unfortunately, the ex-A.I.O.C. did not respond favourably to these two logical proposals. It prevented the tankers from giving receipts and at the same time warned the experts against serving the National Iranian Oil Company. Consequently, the delivery of oil to the tankers of the ex-A.I.O.C. was stopped and the experts were prevented from continuing their work in the oil installations.

While we were thus engaged in Iran in taking over control from the ex-A.I.O.C., the British Government launched a complaint against us in the International Court at The Hague to stop us. The Iranian Government had declared that the Court was not competent to interfere in the Iranian oil question. Nevertheless, on June 6, 1951, the Court issued a ruling to prevent the Iranian Government from taking over control from the ex-A.I.O.C. The former President of the United States, in course of a speech, recommended a provisional agreement to be reached by Iran in complying with the provisional ruling of The Hague Court. Needless to say, the Iranian Government rejected the ruling of the Court which was cancelled by The Hague Court in its final decision on July 22, 1952.

On July 9, 1951, the former President of the United States informed me through his Ambassador in Tehran that he intended to send Mr. Harriman as his special representative to Iran in an effort to find a solution to the oil problem. I replied that there was no objection to this provided the ensuing negotiations did not nullify our national right which had to be safeguarded within the framework of the Nationalisation Law. Mr. Harriman arrived in Tehran on July 15, 1951, and immediately began negotiations with the representatives of the Government and of the Joint Oil Committee. The result of these negotiations was a formula with 14 articles which was finalised in the joint session of the Council of Ministers and the Joint Oil Committee on July 22, 1951. Briefly, the formula said that if the British Government accepted the principle of the nationalisation of the oil industry in Iran according to the Single Article approved on March 20, 1951, on behalf of the ex-A.I.O.C., the Iranian Government would be willing to enter into negotiations with British representatives acting on behalf of the ex-A.I.O.C. to settle the oil dispute. In its official letter of August 3, 1951, the British Embassy accepted Iran's proposal on the recognition of the principle of nationalisation, and the Government therefore declared its preparedness to begin negotiations with the British delegation. This delegation which was headed by Stokes, British Lord Privy Seal, arrived in Tehran on August 4, 1951, and presented its eight-article proposals to the Iranian delegation. The proposals aimed at arranging for the return of the ex-A.I.O.C. under new names, such as "purchasing organisation" so that the Company could once again establish its control over our oil installations. Through setting up such novel organisations the proposals aimed at giving us no more than 50 per cent. of the oil revenues. British establishments were thus to have the monopoly of the sale of our oil. They even talked about a British director-general to be appointed to conduct refining and exploitation operations. None of these points conformed to the provisions of the Nationalisation Law, and the proposals were therefore rejected. The British delegation was told that as the principle of the nationalisation of the oil industry had been recognised by the British Government on behalf of itself and the ex-A.I.O.C., the Government was willing to discuss the sale of oil, the services of foreign experts and the determining and payment of compensation.

From the attitude adopted by the British delegation during the last days of its stay here, it was evident that the British, by submitting such unpractical proposals, intended to wear out the Iranian people and Government through economic pressure and internal difficulties in the hope that this Government might give way to another which would conclude an agreement according to the liking of the British. As this object was not achieved, the British delegation and Mr. Harriman left Tehran on August 23, 1951, and August 24, 1951, respectively. The only positive result achieved by these protracted negotiations was the recognition of the principle of nationalisation of the oil industry by the British Government and on behalf of the ex-A.I.O.C., which automatically eliminated the 1933 agreement (and the speculative profits demanded for the remaining period of the 1933 agreement).

As the Government fully realised that the continued stay of British experts might create unrest among the workers of the N.I.O.C. and the people of Khuzistan, preventing at the same time other customers from buying oil from Iran, it decided to resist the subversive activities of the British Government and the ex-A.I.O.C. In the joint session of the Council of Ministers and the Joint Oil Committee on September 24, 1951, it was decided to cancel the residence permits of all British experts. The following day the Provisional Board of Directors of the N.I.O.C. was instructed to have the residence permits of all British experts cancelled by the appropriate authorities so that the experts could leave Iran within a week. This instruction was duly carried out.

As my dear compatriots have noticed, the Government was faced with all sorts of difficulties and the subversive activities of our opponent in implementing the Nationalisation Law.

The Government, however, drew inspiration from the valiant people of Iran who were bent on shaking off the foreign yoke and freeing themselves from privations. It therefore resisted with greater determination against new obstacles and kept on forging ahead. Thus within five months the Company was dispossessed of its control and all British experts were sent away from Iran.

Our obstinate opponent, however, did not sit idle, and on September 29, 1951, an official report was received from America that the British Government had launched a complaint with the Security Council against the Iranian Government for the implementation of the Nationalisation Law. The Iranian Government which had no reason to enter into a controversy with the British Government over the oil issue was thus involved in a new difficulty. All along, however, the Government was conscious of the principle that any nation which is desirous of vindicating its rights and leading an honourable life must bear with difficulties and remain unaffected by threats. Counting on the help of the Almighty and the support of public opinion, I was determined to achieve our final goal at all costs. To answer the British Government I left Iran for the Security Council, and on October 14, 1951, I refuted the arguments of the British and presented Iran's case at length in connection with the incompetence of the Security Council to deal with the oil dispute.

I also took the opportunity and told the whole world of the tyranny of the ex-A.I.O.C., its interference in the domestic affairs of Iran and its plunder of our oil revenues in an attempt to keep the Iranian people in abject poverty. I also stated in the Security Council that the Iranian people were determined to put an end to the interference of foreigners in their affairs.

After five sessions of discussions and deliberations, the Security Council decided to withhold its decision on the oil dispute pending the ruling of the International Court at The Hague on its competence to deal with the oil dispute. In this way the British Government obtained no result and did not succeed in securing the surrender of the Iranian people and Government which continued to resist with fresh vigour.

The invitation that was extended to me by the former President of the United States and the discussions that took place on oil in the first meeting, provided the United States Department of State to pick up where Harriman had left off and mediate in the negotiations between Iran and Britain. My only object was the implementation of the Nationalisation Law and our national aspirations, and had therefore no objection to the continuation of discussions. During my stay of 25 days in Washington negotiations took place with the then Under-Secretary of the United States Department of State, but this period coincided with Churchill's accession to power in Britain. The British Conservative Government did not possess any good will and the negotiations did not achieve any positive result.

During the last days of my stay in Washington the assistant of the World Bank called on me and had a discussion with me about the reactivation of our oil industry. I told him that if they refrained from appointing British experts and fixed the price of oil which they intended to buy from us beforehand, some result could be achieved by negotiations. It was decided that the Bank should study the matter and convey its views to the Iranian Government.

Forty days after my return from America the World Bank sent a letter through two of its members for further negotiations. The Bank's proposals, however, contained certain vague points about the responsibility of managing the oil installations, the extent of the Bank's authority, and a general agreement for the export of large quantities of oil. Most important of all, there was a point about the division of the proceeds of sale between the seller and the principal buyer, and the depositing of a part of the proceeds with the World Bank by Iran. These points were unacceptable and therefore an answer was given to the proposals asking for further explanations and pointing out that the Bank's proposals did not conform to our discussions in Washington. The representatives of the Bank left for the United States on receiving our reply in order to submit a report to the Bank about their observations in Tehran and Abadan.

On February 5, 1952, a telegram was received from Mr. Garner of the World Bank saying that he had decided to come to Tehran for negotiations along with the delegation. The Government agreed to this and the aforesaid delegation arrived in Tehran on February 12, 1952, to start negotiations with an Iranian delegation appointed by the Government. Negotiations continued until March 16, 1952, and it was known that the proposals of the World Bank did not conform to the provisions of the Nationalisation Law. The Bank insisted on the appointment of British experts in the oil installations and wanted to assume charge of exploitation operations regardless of the legal position which was the outcome of taking over full control from the ex-A.I.O.C. The proposals of the Bank on the price of crude and refined oil resulted in 50 per cent. of the profits to go to Iran as her share. Consequently, these negotiations which were far from being disconnected with the subversive activities of our opponent met with failure.

Realising that the impartial World Bank refused to familiarise itself with legal international principles and that the Great Powers put their own interests above any other consideration, we came to the conclusion that the Iranian people must make greater sacrifices to reach their goal.

On April 12, 1952, I set out my views in a six-article programme which included budget and administrative reforms as well as the rapid development of agriculture and industry as well as giving up the oil revenues. This programme was discussed with the deputies of the 17th Majlis when a few days later it was learned that the International Court at The Hague had decided to look into the British complaint against Iran on June 9, 1952. In

consultation with members of the Joint Oil Committee, I began to prepare the necessary documents.

As the British Government was disregarding the right of Iran in defiance of all international principles, I decided to go to The Hague Court and personally present our case and the position taken by us regarding the Court's incompetence to deal with the dispute. In the middle of June, 1952, I left for The Hague with a delegation. Following the defence of our case in The Hague Court, one would have thought that the British Government would at last abandon its tyrannical attitude and prefer the friendship of the Iranian people to its material interests, and once and for all give up the hope of seeing the Iranian people submit. In true British traditions, the British Government continued its obstinate attitude and it was evident that in view of its failure in international organisations, it tried to resort to provocative measures in the hope of gaining its end.

On my return from The Hague on June 24, 1952, I noticed confusion in the country which had been caused by the agent of foreigners who were acting against the Government. On July 17, 1952, while the judges of the International Court were preparing their decisions, I was compelled to relinquish office, but the courageous people of Iran manifested such sentiments and feelings in the capital and the provinces four days after my resignation that culminated in the national rising of July 21. Commanded by public opinion, I resumed responsibility to conduct the affairs of the country and the next day the equitable ruling of the International Court was announced and once again right prevailed over might. Thus on two successive days two successive defeats were inflicted on the British imperialistic policy in Tehran and at The Hague.

The ruling of the International Court was one of the brilliant successes of the Iranian people in the oil struggle which consolidated our legal position as well as our international position in the oil dispute. It was expected that the British Government would see reason and show some good will to settle the dispute. This, however, was not to be, and a fortnight after the issuance of the Court's ruling my Government sent a note to the British Embassy on August 7, 1952, pointing out the activities of the ex-A.I.O.C. in preventing the export of Iranian oil. Under six headings the claims of the Government from the ex-A.I.O.C. and the losses suffered by Iran because of the British Government and the ex-A.I.O.C. were set out. It was particularly stressed that speedy action should be taken to pay the amounts due to Iran according to the balance sheets of the ex-A.I.O.C. The note went on to say that the Iranian Government was willing to enter into negotiations to find a solution to the oil problem within the framework of the Nationalisation Law, and that the ex-A.I.O.C. could refer its case to competent Iranian courts.

By sending this note, the Government expected that in view of the critical economic situation of Iran, the British Government would lift its economic blockade of Iran which had been instituted against international principles and that the ex-A.I.O.C. would accept to pay immediately the sums to Iran and refer to Iranian courts to settle the question of compensation. Instead of fulfilling these reasonable expectations, the British Government and the ex-A.I.O.C. once again resorted to a policy of procrastination. A considerable time elapsed and no reply was forthcoming to the Iranian note. I was therefore compelled to remind the representative of the British Government in this connection. At long last on August 30, 1952, the British Chargé d'Affaires and the American Ambassador called on me together and submitted a joint message from the former United States President and Premier Churchill. It was known that the joint message was in reply to the Iranian note of August 7, 1952. The joint message contained certain proposals on the manner of settling the question of compensation and relaxing restrictions placed on Iranian funds in London. The proposals were unacceptable because they did not conform to the provisions of the Nationalisation Law and in fact entailed new impositions on the Iranian people and Government. The message in its entirety gave one the impression that the British Government was labouring under the illusion that the Iranian Government had been reduced to such strained economic circumstances that it would submit to just any conditions. The fact is that the Iranian people will never submit to conditions which are incompatible with their national honour and political and economic independence.

On September 24, 1952, the reply to the joint message which contained adequate reasons for the rejection of the proposals was given. To prove its good will, the Iranian Government asked for certain explanations to clarify the vague points of the proposals and submitted counter-proposals, after consultation with the Joint Oil Committee, on the question of compensation and the examination of the claims of both sides as well as the determination and payment of damages and the outstanding account of £49 million due to the Iranian Government by the ex-A.I.O.C. On October 5, 1952, some explanations on the joint message were received from the British and American Foreign Ministers with no mention being made of the Iranian counter-proposals. It became evident once again that the British Government did not wish a settlement and intended to persist in its policy of procrastination. On October 7, 1952, a special note was sent by the Government to the British Foreign Secretary and the ex-A.I.O.C. was invited to make a payment of £20 million on account of the sums due by it and sent its representatives within one week to start negotiations within the framework of the Iranian counter-proposals. At the end of this note it was particularly emphasised that the Iranian Government had constantly pointed out the grave consequences of the policy of procrastination in settling the oil dispute and that once again it made it clear that it would not accept responsibility for this state of affairs which could not continue.

On October 14, 1952, the British Embassy in Tehran sent a reply to the Iranian note and unmasking the illegal intentions of the British Government, openly demanded compensation for the remaining period of the 1933 agreement while denying the legitimate claim of the Iranian Government in connection with the £49 million and the claim for damages in connection with the activities of the ex-A.I.O.C. in preventing Iran from selling her oil.

Ever since the nationalisation of the oil industry the policy of the ex-A.I.O.C. and the British Government has been based on resisting the national aspirations of Iran and the good intentions of the Iranian Government, hoping to eventually frustrate and wear out the Iranian people and Government.

The Iranian Government which had manifested its good will in the oil question to such great extent by asking the tankers of the ex-A.I.O.C. to carry oil against receipts and the British experts to continue their services with the same salaries and privileges received no favourable response from the British Government which pursued an attitude that ran counter to the principles of friendship and collaboration between Governments. Eventually, the Iranian Government was compelled to break off such relations that caused internal provocations.

On October 22, 1952, the Ministry of Foreign Affairs declared the intention of the Iranian Government to break off diplomatic relations in a note to the Iranian Government. The note pointed out that the British Government far from helping the settlement of the oil dispute which is of vital importance to the Iranian Government illegally helped the ex-A.I.O.C. and thereby prevented a settlement. The note particularly pointed out that British diplomatic officials in Iran stirred up trouble and interfered in the domestic affairs of Iran and that diplomatic relations between the two Governments would be re-established only when the British Government realised the true nature of the national movement and aspirations of the Iranian people.

The rupture of diplomatic relations between the Iranian and British Governments does not necessitate a rupture in the friendly ties between the two nations. The Iranian nation has always regarded the British people with respect and is hopeful that the people at the helm of that Government will also pay somewhat more attention to the facts and circumstances of the world today and consider the awakening of nations, thus abandoning the method they have been hitherto practicing, and adjust their policy to world conditions today in order to enable the two nations, Iran and Great Britain, to benefit from friendly relations through renewing their diplomatic relations.

Then the American Government through its Ambassador, the Honourable Loy W. Henderson, repeatedly expressed its interest in continuing the negotiations with a view to finding a solution for the settlement of the dispute, and the Iranian Government was hopeful that in this way an equitable solution acceptable to both parties would be found.

Conferences held between the Ambassador and myself were chiefly on the following two subjects: First settlement of the claims of the Iranian Government and the former Company; and second, the sale of oil abroad in such quantities as would bring the Abadan plant into full operation.

Explanations will now be furnished about each of these two subjects:

(I) With regard to the claims of the former Company for compensation and the Iranian Government's counterclaims: as my dear compatriots know, the Iranian Government in its reply to the joint Churchill-Truman message of August 24, 1952 (Mehrvar 2, 1331), accepted adjudication by the International Court of Justice on certain conditions. The question of accepting adjudication by the International Court of Justice must be explained in a few words.

After the International Court of Justice confirmed the correctness of the Iranian contention challenging the jurisdiction of the Court in the oil matter, the dispute between Iran and the former Oil Company could be brought only before the Iranian courts. However, the Iranian Government accepted adjudication by the International Court for the following reasons:

Firstly, the International Court of Justice had proved its impartiality and righteousness to the world in the Iranian oil question by the decision which it handed down declaring that the case did not fall within its jurisdiction.

Secondly, the Iranian Government and people in no way refuse to acknowledge the rights of anyone. This is evidenced by the law nationalising the oil industry which provides for the possibility of paying damage if proved.

Thirdly, the British Government on various pretexts, including the pretext that Iranian courts might deviate from the limits of impartiality, was not prepared to take up its claims with the Iranian courts.

Fourthly, the Iranian Government wanted the claims to be speedily settled.

However, inasmuch as the content of claim must be made clear in any litigation, the Iranian Government requested that the content of the claim be ascertained in order that the issues may be clarified and the two Governments may be able to refer their claims to the International Court of Justice.

In its proposal of Shahrivar 1331 (August 30, 1952) the British Government determined the basis of its claims as follows:

The compensation to be paid in respect of the nationalization of the enterprise of the Anglo-Iranian Oil Company in Iran having regard to the legal position of the parties existing immediately prior to nationalisation and to all claims and counterclaims of both parties.

The Iranian Government in reply to this proposal stated that the phrase "legal position of both parties immediately prior to nationalisation" was intended to legalise the invalid agreement of 1933 which has never been accepted by the Iranian nation and this is in no way acceptable to the Iranian Government.

This difficulty and the uncertainty of the basis of compensation were responsible for the fact that the proposals and negotiations of Shahrivar and Mehr did not achieve any result and direct negotiations ceased.

In the recent conferences held between the Honourable Loy W. Henderson, the American Ambassador, and myself the British Government has proposed that in place of the phrase "legal position of the parties immediately prior to nationalisation" the phrase "fair compensation for the loss of Company's enterprise" be inserted.

There were numerous reasons which prevented us from accepting this vague and uncertain basis for the determination of compensation, (to wit):

First in nationalised industries throughout the world, assuming the existence of a contract entered into in accordance with legal rules, without imposition and intimidation, nothing is paid except compensation for property and establishments and to agree to pay compensation for the loss of enterprise is at variance with the principle of nationalisation of industries and would be defeating the purpose of nationalisation.

Secondly, the former Company in fact did not have an enterprise in Iran. On the other hand it must be said that it was freely taking away the greatest national wealth of Iran, and what it actually paid the Iranian Government for this windfall was actually only a sum paid the Government authorities to keep them quiet. Therefore to pay one rial, for example, and make a profit of twenty rials is no enterprise. It is a form of plunder for which there is no precedent anywhere in the world. My dear compatriots will agree that if we accept the loss of such "enterprise" as the basis of compensation, we should be turning over direct to the former Company all our oil revenues as compensation, for in truth the former Company has lost a very lucrative "enterprise" through the nationalisation of the oil industry.

Thirdly, acceptance of the loss of the enterprise as the basis of compensation may involve another difficulty, namely, they may claim that if the oil industry had not been nationalised in Iran, such a very lucrative enterprise and such a windfall would have been at their disposal for many more years. In that case even all the oil revenues could not compensate for such damage, or in reality compensate for such plunder.

In short, for the reasons mentioned above the loss of the enterprise could not be accepted by the Iranian Government as the basis of compensation.

The Iranian Government made the counter-proposal that the value of the property and establishments of the former Company in Iran should be made the basis of compensation, for this was the only compensation that the Iranian Government could accept in accordance with accepted world principles.

(2) The question of the sale of oil: As to the negotiations conducted concerning the sale of oil, it would suffice to say briefly that the said negotiations were based on this (idea)—that after the signature and implementation of the agreement between the Iranian Government and the British Government with regard to compensation, an American agency would purchase from the National Iranian Oil Company a certain quantity of oil, with a substantial reduction, amounting to \$133 million, and the sum of \$50 million would be advanced to the National Iranian Oil Company immediately after the signature of the agreement. In this connection, it was suggested as a condition for the sale of oil and payment of the advance that a company or international organisation be set up, in which the former Oil Company should participate and that the Iranian Government agrees that the National Iranian Oil Company will enter into negotiations with this International Company with a view to concluding a contract for the purchase of crude and refined oil in large quantities over a period of years and on such terms as might be mutually agreed upon.

Inasmuch as these transactions were made contingent on the signature and implementation of the Compensation Agreement, no result could be achieved unless an agreement was reached in the matter of compensation.

Nevertheless, the Iranian Government expressed to the Honorable Mr. Henderson, the American Ambassador, its views with regard to the said questions, and the conversations continued with a view to finding a solution. But unfortunately, the essential difference on the subject of the basis of the former Company's claim for compensation still remained in its original form, and the British Government kept insisting that "the loss of the former Company's enterprise as a result of the laws nationalising Iranian oil" should be the basis of examination by the International Court of Justice in determining the amount of compensation, and this stipulation could not be accepted by the Iranian Government for the reasons already stated.

Before I define the position of the Iranian Government with regard to oil, I must tell my dear compatriots that there are two basic reasons why the oil dispute has not been settled:

(1) The British Government's expectations of a few of our fellow countrymen who have been protected by that Government for more than a century in Iran, and who have thrown the people of this country into such a deplorable plight that they must satisfy their hunger with a loaf of bread and do without any of the amenities of life. The British Government's

expectation is that these few who have usurped the rights of their compatriots in different ways under the protection of that Government and who have been treacherous to their own motherland will restore former conditions were it only in order to protect themselves, and the British Government would be able to settle the oil question as it pleases with its proteges.

(2) The other factor which precluded a settlement of the oil question was the interests which certain huge oil firms have in the Middle East. Those firms have, as a result of propaganda conducted by the former Company, come to believe that in the event of the oil problem being settled on the basis proposed by the Iranian Government their interests might be jeopardised. It is for this reason that the proposals heretofore submitted to the Iranian Government either directly or through the United States have been in the same sense though differently worded, and none of these proposals has safeguarded the rights of the Iranian nation. They have not, therefore, been accepted by the Iranian Government and people.

There are two more fundamental points that I must also bring to the attention of my compatriots:

First, the Government will try to sell its oil abroad. It has not thus far failed to make every effort in that direction. Praise be to God the verdict handed down by the Court of Venice looms as a harbinger of the success of the Iranian people and Government in the sale of oil. There is much hope that hereafter serious purchasers will be found who will want to buy Iranian oil, and God willing the Government will be able to proceed with the full operation of the Abadan plant as the result of the exportation of oil.

Second, the door to negotiations with the British Government is not closed. At any time that the same Government is willing to enter into negotiations and to give due consideration to the rights of Iran, the Iranian Government will be ready to negotiate. But of course the fact that the Iranian Government is prepared to settle the oil question does not preclude the taking by the Government of other measures to make the present budget of the country independent of oil revenues.

In the meantime I must point out that in the realm of the economic and financial affairs of the country, although the southern oil revenues have ceased to flow, even though the cost of maintenance of the plant is a heavy charge on the budget of the country, praise be to God, the Government has been able to stand on its own feet. All the factories which had stopped running have resumed operations; the debts of the Government and the salaries of the Government employees have been paid on time; the Government has honoured its obligations; and in fact, contrary to the predictions of the country's enemies that the Iranian Government and people have emerged victorious from their severe test.

The enemies of the country want to make it appear that the Government has been remiss or negligent in settling the oil question. I ask my dear compatriots: Are the British proposals concerning compensation, which is the basis for the settlement of the oil problem, acceptable to the Iranian people?

If the Iranian people consider compensation as requested by the British Government acceptable, then the Government has really been remiss in not settling the oil question. If it is not acceptable, what then is the Government to be blamed for?

Now that the negotiations conducted have to a certain extent been reported to the Iranian nation, I shall clearly express the views of the Government with regard to oil:

(1) In case the former Company agrees to a basis acceptable to Iran for determining the amount of compensation claimed and/or states a maximum amount of its claim which would appear reasonable to the Iranian Government, the Iranian Government will agree to have the Company's claim for compensation and the Iranian Government's counter-claims referred to adjudication by the International Court of Justice.

(2) The Iranian Government is prepared to pay within a minimum period of time any amount of compensation that may be determined by the International Court of Justice to be due to the former Company, out of 25 per cent. of the net revenues and/or by delivery of crude oil and refined products at a reasonable international price.

(3) Instead of referring to the International Court of Justice the Iranian Government has been prepared and is prepared to enter into negotiations with the plenipotentiary representatives of the former Company and the British Government for the purpose of settling the claims of both parties in an amicable manner.

This was a report on what has been achieved during the past two years as a result of the sacrifices of the people and offers a perspective of the successful stages covered by the courageous people of Iran in their greatest and most momentous struggle of their history.

If we have emerged triumphant in this great and holy national struggle and are praised by the world for our patience and steadfastness, it is because we have acted with unanimity of purpose towards final victory and have continuously encouraged and supported the Government which has been engaged in a fight against foreigners to preserve our interests.

Three years ago even the most optimistic of persons could not imagine the miracle that could be worked through unity. He could not discern the secret of our national independence and sovereignty. Thanks to our unity, we have overcome innumerable difficulties and have driven away the mischievous and crafty opponent who oppressed us and ruled over us for 150 years. We have shown to the world that we stop at nothing in the realisation of our national aspirations. A few more steps and we shall achieve final and decisive victory. We must traverse this short distance with patience and steadfastness. May I take the opportunity

once again of thanking all classes of the population, and particularly those friends and collaborators who from the very outset and during difficult periods guided our national movement and fought for the independence of our country.

In any living nation which is desirous of freedom of thought and a democratic Government, divergence of views on minor and major issues inevitably occur which in normal times assumed the shape of parliamentary, press or party controversies. But at a time when the political and economic independence of the country is threatened by an external danger, all differences must be set aside and everything should be devoted to the defence of the homeland.

Divergence of opinion must give way to absolute unity and the whole nation must be mobilised to resist the enemy. Once victory has been won, there will be plenty of time to attend to other affairs and give vent to divergence of views. Should the enemy penetrate our stronghold and sow dissension among us, he will succeed in depriving those who fight for their national rights of their freedom of action and will seriously prejudice and harm our sovereign rights.

The fruits of several years of struggle and unity make it incumbent upon us to preserve our unity. We must always bear in mind that we are the sons of this land which has come down to us as a heritage from our glorious ancestors to the present fighting and self-sacrificing generation.

EP 11338/2

No. 49

SOVIET-IRANIAN TRADE AGREEMENT

Sir A. Gascoigne to Sir Winston Churchill. (Received June 22)

(No. 121E. Confidential)

Moscow,

June 18, 1953.

I have the honour to report that according to a Tass message from Tehran published in the Soviet Press on the 13th of June, an agreement has been reached between the Soviet Union and the Iranian Government for the mutual supplying of goods over the current twelve month period. According to the message under reference, the agreement envisages a considerable increase in trade between the two countries in comparison with the preceding year, and includes goods "traditional" in Soviet-Iranian trade.

2. The message states that negotiations took place in Teheran on the 10th of June, between M. I. Kuznetsov, Trade Representative of the U.S.S.R. in Iran and the Iranian Ministry of the National Economy, and that these were followed by an exchange of letters between M. Kuznetsov and M. Akhavi, Minister of the National Economy of Iran, which lead to the agreement.

I have, &c.

A. GASCOIGNE.

EP 1533/246

No. 50

PERSIAN COMPULSORY REFUELING ORDER TO FOREIGN SHIPPING

Foreign Office to Sir R. Makins (Washington)

(No. 2656. Confidential)

Foreign Office,

July 2, 1953.

Your telegram No. 1332 [of June 23]: Persia.

United States Embassy have shown us a telegram from the United States Embassy in Tehran stating that, since the Persian decree seems to be contrary to international maritime practice, a protest might be made.

2. We are anxious to let the other maritime Powers make the running and to play down the "stolen" oil angle. We hope, therefore, that you can prevail upon the State Department both to protest on their own behalf and to persuade the other maritime Powers principally concerned e.g. Norway, Sweden, Denmark, Holland, Germany and Japan, to do likewise. It would probably be more effective if we ourselves do not protest for the present, although we shall probably do so later for the record. We are, however, ready to press others to protest, either in support of the United States, or on our own.

3. A protest can, so far as the States named above are concerned, probably best be based on Article 2 of the Statute on Freedom of Transit which is an integral part of the Barcelona Convention of April 20, 1921, of which those States, as well as Persia and the United Kingdom are signatories.

4. Please report the State Department's intentions.

5. My immediately following telegram contains the text of an open letter which the A.I.O.C. are sending to all concerned re-stating their attitude towards sales of "stolen" oil.

No. 51

PUBLICATION OF CORRESPONDENCE BETWEEN PRESIDENT EISENHOWER AND DR. MUSADDIQ

(1)

Sir R. Makins to Mr. Eden. (Received July 10)

(No. 1443. Confidential)

Washington,

July 9, 1953.

The State Department have informed a member of my staff that following Associated Press reports from Tehran dated July 8 of messages exchanged between the President and Persian Prime Minister, the Administration had decided to publish texts at 4.00 p.m. today.

2. Summary is given in my immediately following telegram. Full text follows by bag.

3. The State Department explained that, when Ambassador Henderson came home on leave, he brought with him a sealed message from Dr. Musaddiq dated May 28, which he handed to the President personally. On June 30 a secret and personal reply was telegraphed to Tehran and delivered on July 3 by United States Chargé d'Affaires. When news leaked on July 8 the Administration proposed to Musaddiq that correspondence should be published and Dr. Musaddiq (somewhat reluctantly) agreed.

(2)

Sir R. Makins to Mr. Eden. (Received July 11)

(No. 1452. Confidential)

Washington,

July 10, 1953.

My telegram No. 1444: Persia.

The State Department say that Dr. Musaddiq has now asked for telegrams exchanged between him and President-Elect Eisenhower on January 9 and 10 to be made available to Press. President left for Texas this morning, so it may be a day or two before his decision can be obtained.

2. Musaddiq's message of January 9 to Eisenhower congratulates him on his election and urges him to give careful consideration to the Persian case, which is expounded at some length. Reply is to effect that Musaddiq's views will be studied with care and that President will be glad to receive at any time Musaddiq's views on any subject of common interest.

3. Reply was sent from Colombia University, New York, and State Department were not consulted at the time.

4. Text of two letters follows by bag.

EP 1533/289

No. 52

ITALIAN BARTER DEALS WITH PERSIA

Foreign Office to Sir V. Mallet (Rome)

(No. 210. Saving. Confidential)

Foreign Office,

July 13, 1953.

Your telegram No. 361 [of July 3].

On July 9 Corrias spoke to Dixon about the Italian desire to allow barter deals of Italian products against Persian oil. He stressed that he was speaking informally and said that he only wished to draw attention to some of the economic questions involved. It was not for him to enter into the wider political considerations, on which, as he knew, Dixon had explained our position to Signor del Balzo. (My telegram No. 199 Saving [of July 3] refers.)

2. Corrias made two main points. In the first place, oil came under Italian liberalisation. Therefore it had been necessary to take special measures, discriminatory to Persia, in order to keep Persian oil out of Italy. This placed the Italian Government in an embarrassing position with the Persian Government. The Italians frankly were not looking forward to the meeting of the standing Italo-Persian Economic Committee. They had put off the meeting to August but could not delay it beyond that.

3. Corrias's second main point (which was also a point made by Signor del Balzo) was that the Italian Government were under criticism for expending dollars and sterling for oil when they could get Persian oil against Italian products. He frankly thought that the Italian Government would not be able to stand out against this kind of pressure.

4. Corrias pressed Dixon very hard to think of some way which would allow the Italians to go ahead with barter deals. He himself thought that, if the Italian Government dissociated themselves entirely from these transactions, there could be no political objection on our side.

5. Dixon said that we continued to see all the objections to this scheme which had been mentioned to Signor del Balzo. We could not think of any way round the difficulty and did not think that there would be much use in spending time on trying to devise one.

EP 1533/301

No. 53

JAPAN AND PERSIAN OIL

(1)

Sir N. Roberts to Mr. Shigenobu Shima

(Confidential)

Tokyo,

July 17, 1953.

Thank you for your confidential letter of the 15th July in which you inform me that any barter transactions which involve Iranian oil as one of the items to be imported into Japan will not be approved by the Japanese Government.

There is another aspect of the Idemitsu Company's transactions in Iranian oil to which I should like to draw your attention. According to the Ministry of Finance, the Idemitsu Company had a dollar allocation of \$700,000 for the period October, 1952-March, 1953, and a similar allocation for the current half-year, thus giving the Company a total dollar allocation of 1,400,000. The first consignment carried on the *Nissho Maru* consisted of 13,228 long tons of motor spirit and 2,732 tons of gas oil. At present day prices, the f.o.b. Persian Gulf cost of motor spirit is £13 11s. 8d. per long ton and of gas oil £9 11s. 0d. per long ton. The total value of the first consignment therefore, at present day market prices is £205,770 18s. 8d. or \$576,158.61. It was claimed, however, that the amount actually paid by the Idemitsu Company for the first consignment was only \$410,000 thus leaving a balance of \$990,000 of which, after allowing for commitments in the United States, some \$900,000 still remained available for further purchase of oil from Iran. The second consignment from Iran carried by the *Nissho Maru* consisted of 17,000 long tons of motor spirit and 4,200 long tons of light oil. On the same basis of calculation the present day cost of this consignment is £271,026 13s. 4d. or \$758,874.66; at normal prices f.o.b. cost of the two consignments would be, therefore, \$1,335,033.27, thus leaving only \$64,966.73 available for further purchases. Even if the claim that the first consignment cost only \$410,000 is correct, only some \$231,000 should now be available. Notwithstanding this fact, the *Nissho Maru* has again departed for Iran with the declared intention of picking up yet another consignment.

In its aide-mémoire No. 349/EA 3 of the 13th May the Japanese Government stated that "Necessary measures shall be taken to suspend, for the time being, the allocation of foreign exchange funds after May 1st, 1953, for the importation of oil from Iran." This declaration was welcomed by Her Majesty's Government but it is obvious that this action of the Japanese Government will be frustrated and the value of its assurances vitiated if the Idemitsu Company is allowed to carry on transactions with Iran at fictitious prices. It may even be the case that by agreement with the Iranian Government no payment at all will be made to that Government for the time being, in which event the Idemitsu Company could continue indefinitely to import oil and still claim that it is acting within the limitations of its exchange allocation.

It will be remembered that when Her Majesty's Ambassador called on the Foreign Minister on the 4th May last he stated to Mr. Okazaki that Her Majesty's Government would react most unfavourably if a traffic were allowed to develop in Persian oil. There seems to be a real danger that such a traffic will in fact develop if the Idemitsu Company is allowed to import Iranian oil indefinitely either without making payment for it, at all events for the present, or by paying prices which are quite fictitious. May I request, therefore, that the Idemitsu Company be limited in its future purchases of Iranian oil to the dollar amount which would have been still available from its total allocation of \$1,400,000 had the Company paid normal world prices for the first two consignments. Otherwise, as I have said, the Japanese Government's intention will be frustrated if not rendered wholly ineffective.

Yours, etc.

N. S. ROBERTS.

EP 1533/355

(2)

Mr. Shima to Sir N. Roberts

Tokyo,

August 15, 1953.

Dear Sir Norman,

We have been studying your confidential letter of July 17 last (1534/145/53) in which you stated that, according to your computation, there should no longer exist in the hand of the Idemitsu Kosan KK enough dollar fund to make further purchases of Iranian oil after the second consignment carried by the *Nissho Maru* and, accordingly, requested, in short, that the purchase should stop at the quantity which would normally be bought with \$1,400,000 at international cartel prices.

I should like to call your attention to the announcement of the Iranian Government made on April 27, 1953, in which an offer was made for refinery products to Japanese and American destinations to be sold f.o.b. Abadan at a price 50 per cent. lower than the usual rate of similar products in the Gulf of Mexico. It seems only natural that the Idemitsu Kosan KK would make use of this offer. In fact, I understand negotiations are in progress between the Japanese company and the National Iranian Oil Co. for further reduction (up to 75 per cent. of cartel prices) in the prices of oil purchased and to be purchased by the former.

Consequently, it may be assumed that the number of consignments to be carried by ship will be between five and ten, representing the 50 per cent. and 75 per cent. discount respectively, although nothing is yet known of the final result of the above-mentioned negotiations. I may add in this connection that, whatever the number of consignments may be, the last ship must arrive at a Japanese port by January 15, 1954, which is the time limit put on the importation of goods to be purchased with the last allocation of dollar fund granted to the Idemitsu Kosan KK. This, together with the assurance given in my letter of July 15 last, would mean that there will be no more traffic, regular or irregular, of oil between Iran and Japan after January 15th next year at the latest, as long as the present international situation continues as it is.

Yours, etc.

S. SHIMA.

Special Assistant to the Vice Minister.

EP 10345/22

No. 54

TUDEH PARTY ACTIVITIES*British Embassy (Washington) to Eastern Department. (Received August 5)*

(No. 400)

Washington,

July 30, 1953.

Message from Department of State for the Press, July 28, 1953

IRAN

Asked about recent reports of the growing strength of the Tudeh Party in Iran, Secretary of State John Foster Dulles, at his news conference today, made the following reply:

The growing activities of the illegal Communist Party in Iran and the toleration of those activities by the Iranian Government have caused our Government great concern. These developments certainly make it more difficult for the United States to grant assistance to Iran.

No. 55

COMPULSORY BUNKERS AT ABADAN

(1)

Foreign Office to Sir R. Makins (Washington)(No. 3072. Confidential)
(Telegraphic)Foreign Office,
July 31, 1953.

Your telegram No. 1408. Compulsory Bunkers at Abadan.

United States Embassy here inform us that State Department are disinclined to protest. Merchant vessels, they say, are subject to the law of the country in whose territorial waters they are: and the Persian decree is not essentially different in this regard from some United States regulations (e.g. tonnage-tax, compulsory pilotage), as no discrimination is involved. It

appears that their attitude might change should specific United States interests seem threatened. As to legality they see little substance in argument drawn from Barcelona Convention, to which anyhow they are not a party.

2. Meanwhile after an unsuccessful attempt to force bunkers on the *Clan Mackenzie*, a British vessel on charter to T. J. Stevenson, the Persian authorities have postponed application till August 3, after which minimum of 100 tons per vessel will be compulsory.

3. We are therefore urging other Governments concerned to make protests without waiting for the United States. Our instructions are being repeated to you.

4. We have not lost hope that United States will eventually decide to protest, since their own Embassy in Tehran has suggested it, and arguments put forward to the contrary are unconvincing. What would they do if Perón passed similar decrees obliging visiting ships to revictual with Argentine meat?

5. Please inform State Department of the above and urge them strongly to reconsider their decision, in interest both of all maritime Powers and in particular of firm Anglo-United States policy *vis-à-vis* Musaddiq.

(2)

Sir N. Butler to Mr. Eden. (Received August 11)(No. 172. Confidential)
(Telegraphic)*The Hague,
August 11, 1953.*

My telegram No. 169: Persian Oil.

Official concerned in Ministry of Foreign Affairs to-day told Stewart that simultaneous protest had been lodged by Netherlands, Swedish, Norwegian and Danish missions in Tehran on August 9 but that the United States Embassy were still awaiting instructions.

EP 1533/337

(3)

Mr. Eden to Mr. Berthoud (Copenhagen)(No. 129 Saving. Confidential)
(Telegraphic)*Foreign Office,
September 1, 1953.*

The Hague telegram No. 172 [of August 11].

In view of the change of Government we do not think it politic to deliver a protest about this decree at the moment for it would be unfortunate if our first, even though indirect, communication with the new Government were to be of a litigious kind. We shall therefore wait at least until we see whether the Persian authorities continue to apply the decree, before deciding whether a protest from us would still be desirable.

2. Would you please explain this to the Ministry of Foreign Affairs, who, we hope, will understand and appreciate our reasons.

No. 56

POLITICAL SITUATION

(1)

Foreign Office to Sir R. Makins (Washington)(No. 3268. Confidential)
(Telegraphic)*Foreign Office,
August 23, 1953.*

You should take an early opportunity of telling the State Department that the recent developments in Persia are under active consideration in London with particular reference to possibility of resumption of Anglo-Persian diplomatic relations and the question of eventual settlement of the oil dispute. We should like to have discussions with the State Department as soon as we have been able to formulate our ideas.

2. While we recognise the vital importance of keeping Persia in the anti-Communist camp, we should hope that the United States will bear in mind that any immediate offers of economic support to Persia on too large or too long-term a scale might have an adverse effect on our chances of reaching a settlement in the oil dispute. This in the longer run will be of vital political importance to Zahedi who must demonstrate that he has got the industry running again. Caution in this matter would be in line with the policy declared by the President in his message of July.

3. You should also point out that the re-emergence of the Persian oil question as a live issue reinforces our plea for an exchange of information and if possible a common policy on Middle East oil as a whole. For instance, the Persian Government and the A.I.O.C. may feel less inclined to negotiate a firm settlement if it is known that the basis on which the Saudi and Iraqi agreements are calculated is about to be altered. Moreover the reintroduction of Persian oil to world markets might lead to a cut-back in production in other Middle East countries which, unless carefully co-ordinated by the British and United States oil companies, could have serious effects on their relations with local Governments.

(2)

REQUEST BY THE SHAH FOR AMERICAN AID

Sir R. Makins to Mr. Eden. (Received August 26)(No. 1828. Confidential)
(Telegraphic)*Washington,
August 25, 1953.*

Your telegram No. 3268: Persia.

The substance of your telegram under reference was conveyed to Byroade this morning. He said that the Shah had already, in the course of a long conversation with the United States Ambassador, made an appeal for financial help. The Ambassador was at present trying to obtain this request in writing, and (partly in order to avoid inconsistency with the President's message of July), he would ask the Persians to include a statement of their intention to improve their relations with foreign Powers, phrased in such a way as to point to a resumption of relations with Her Majesty's Government.

2. No indication had yet been given to the Persians of the scale on which they might expect to receive assistance. The figure the State Department had in mind was 36 million dollars a year, in addition to their existing commitments for economic and military aid, which amount to about 24 million dollars. Byroade thought that this would enable the new Government to avoid any immediate crisis without, however, relieving them from the necessity of seeking an oil settlement. He hoped that the payments would be made in monthly instalments, both because this would give the United States Government some control over the Persian Government's policy and because if there was an oil settlement they could then stop payment before the end of the financial year.

3. Byroade is anxious to know the results of the study to which you refer in your paragraph 1, and also to have your comments on the State Department's proposals.

4. He appreciated the force of the argument in your paragraph 3, but regretted that, owing to temporary shortage of personnel in the department, he might have to delay the opening of the oil talks until the immediate problem of aid to Persia had been dealt with.

(3)

Foreign Office to Sir R. Makins (Washington)(No. 3342. Confidential)
(Telegraphic)*Foreign Office,
August 28, 1953.*

Your telegram No. 1828 [of August 25]: Persia.

We entirely understand and welcome the State Department's wish to provide limited funds for immediate stabilisation in Persia. We are anxious however that the Persians should not be given the impression that this will be a regular annual subsidy to continue indefinitely until an oil settlement. This would tend to lessen their desire for a settlement.

2. We should much prefer therefore that the aid should be a limited sum for immediate needs (this need not of course prevent the State Department doing it out in monthly rations). If this is accepted, we wonder whether as much as \$36 million is really needed.

3. We should hope that in making an announcement, the State Department would again emphasise, without necessarily referring to the President's letter to Musaddiq of July, that a long-term solution of Persia's difficulties could only be found in an oil settlement.

4. We should like to see as soon as possible what the State Department propose to put out. The policy of the common front in Persia makes it desirable that we should be able to say when the announcement appears that we had been consulted and were fully in agreement with the United States decision.

EP 1114/5

No. 57

(1)

**LETTER FROM GENERAL ZAHEDI TO PRESIDENT EISENHOWER
DATED AUGUST 26, 1953**

Dear Mr. President,

I wish to express to you and through you to the American people the appreciation of the Iranian Government and people for the aid which the United States has extended Iran during recent years. This aid has contributed much to the security of the country and to the raising of its technical efficiency. The assistance which the United States is already rendering Iran, helpful as it is, is unfortunately not sufficient in amount and character to tide Iran over the financial and economic crisis which I find it to be facing. The treasury is empty; foreign exchange resources are exhausted; the national economy is deteriorated. Iran needs immediate financial aid to enable it to emerge from a state of economic and financial chaos.

Iran also requires aid of an economic character to enable it to carry out programmes which the Government is preparing for developing its agriculture and industry, for exploiting its rich mineral resources, for improving its transport and communications, for strengthening its internal and foreign trade, and for raising the health, education and technical levels of the Iranian people.

The people of Iran are anxious to have a prosperous, orderly country in which they can enjoy higher standards of living and make greater use of their talents and resources. They are willing, if given an opportunity, to work hard in order to obtain these objectives, but the realisation of their aspirations may be delayed for some time unless they receive technical, financial and economic aid from abroad. I hope that the United States will find it possible at this critical moment in Iranian history to come to my country's assistance as it has done on occasions in the past.

In conclusion, I would like to emphasise that it is the intention of the new Government of Iran not only to strengthen the country internally but also to improve its international position. The Government desires to maintain friendly relations with the other members of the family of nations on a basis of mutual respect. It will pursue a policy of eliminating such differences as may exist or which may develop between other countries and itself in a spirit of friendliness and in accordance with accepted principles of international intercourse. I am sure that I voice the feelings of the great majority of the people of Iran when I state that Iran desires to contribute its share to the maintenance of peace and to the promotion of international goodwill.

Please accept, &c.

EP 1114/5

(2)

LETTER FROM PRESIDENT EISENHOWER TO GENERAL ZAHEDI

Dear Mr. Prime Minister,

I have received your letter of August 26 regarding the problems which you face in Iran. The American people continue to be deeply interested in the independence of Iran and the well-being of the Iranian people. We have followed policies in Iran, as in other countries of the free world, designed to assist peoples of those countries to bring about economic development which will lead to higher standards of living and wider horizons in knowledge and opportunity. I am gratified that the aid which we have extended has contributed to the security of Iran and to the raising of the technical efficiency of the Iranian people. I am also pleased to have your assurance that your Government desires to maintain friendly relations with other members of the family of nations and that it will pursue a policy of eliminating such differences as may exist or which may develop with other countries in a spirit of friendliness and in accordance with accepted principles of international intercourse.

In an effort to assist you in dealing with your immediate problems, I have authorised my Ambassador to Iran to consult with you regarding the development of our aid programs there. I recognise that your needs are pressing. Your request will receive our sympathetic consideration and I can assure you that we stand ready to assist you in achieving the aspirations for your country which you have outlined.

Please accept, &c.

DWIGHT EISENHOWER.

EP 15316/9

No. 58

UNITED STATES ASSISTANCE FOR PERSIA

(1)

(Communicated by United States Embassy on September 1)

(Confidential)

MEMORANDUM

In a talk Ambassador Henderson had with Zahedi yesterday, the Ambassador told the Prime Minister that he questioned whether any emergency assistance which the United States might be able to extend to Iran would be enough to carry Iran further than about April 1* if it could carry Iran that long. Consequently, the Ambassador thought that as soon as possible consideration should be given to some sort of an oil settlement with the United Kingdom in order that there might be available to Iran for her rehabilitation programmes income from her oil. After pointing out that he was without instructions in this regard and had no specific suggestions in mind, the Ambassador said that he thought it might be helpful to both the United Kingdom and Iran if some secret explorations could take place in order to determine whether one might at least be able to find agreement in principle as to the manner in which one could settle the oil problem. The United States Government would find it difficult to continue to defend to the people and the Congress of the United States an extension of economic and financial aid to Iran except on an emergency basis unless the Iranian Government could show itself prepared to reach an agreement with the British on the oil problem along the lines of accepted principles of international intercourse.

Zahedi expressed understanding of the above and stated that he hoped to be able to find a settlement of the oil problem which would be mutually fair to the United Kingdom and Iran. He pointed out, however, that to move too rapidly on this problem would be suicidal. It was his opinion that under conditions of secrecy it might be valuable for both sides to learn something about each other's views concerning a resolution of the oil dispute. He said that he understood that the British possessed an innate sense of fairness. Should they be willing to accept a solution which in their own hearts they judged fair to Iran and which would not involve an undue burden on the Iranian people, the British would find him receptive. It was a different matter, however, if they tried to drive a hard bargain with him. He hoped that both the United States and the United Kingdom would appreciate that a resentful Iranian public would overthrow his Government immediately if he should conclude an agreement which they considered betrayed the interests of Iran. Should by some chance his Government survive for a time after such an agreement some future Government would surely disavow it.

In reply Ambassador Henderson told Zahidi that he thought that an attempt to reach an agreement should be made just as soon as public opinion could be prepared even if there were no Majlis in session to ratify it for several months. He pointed out that the early conclusion of an agreement might result in tension between the United Kingdom and Iran being relaxed and that it might even make possible taking the necessary steps to prepare the refinery for immediate production. In this connection the Ambassador stated that he hoped that the necessary measure to stop anti-British propaganda over the radio and in the Iranian press would be taken immediately. The continuation of such propaganda was not only embarrassing to the United Kingdom but also to the United States Government and the public of the United States would not be receptive regarding extending financial assistance to a Government which was countenancing propaganda against an ally of the United States.

Zahedi said that orders forbidding such propaganda against any foreign Government, including the Soviet Union, had already been issued. He said such propaganda was stupid. He hoped that the Ambassador would not think he was personally anti-British. Although he had worked against the British in the early part of the second World War and had been imprisoned by them, he harboured no hard feelings. He worked against the British because they were associates and allies of the Soviet Union, Iran's most dangerous and implacable enemy, and not because they were British. An ally of the Soviet Union he considered to be *ipso facto* an enemy of Iran and a foe of the Soviet Union, a friend of Iran. He ceased to regard the British as enemies when the United Kingdom ceased to be an ally of the Soviet Union. It was his desire that relations between the United Kingdom and Iran should be friendly and in due course he was willing to do what he could to make this possible.

* Assumed text.

(2)

Sir R. Makins to Mr. Eden. (Received September 4)(No. 1902. Confidential)
(Telegraphic)

Your telegram No. 3425.

I told Dulles today that we welcomed the American decision to give emergency aid to Persia but I hoped that in doing so they would bear in mind that the prosperity of Persia could only rest upon an oil agreement. The important thing at the moment was not so much the amount of the aid but its character, namely that it should be clearly labelled "emergency" and not carry any implication of a continuing subsidy.

2. Dulles said that he had the point very much in mind. The United States obviously could not carry the Persian economy for a long period. An oil agreement was necessary. He was thinking of bringing into the State Department temporarily an individual to work full time on the Persian oil question, with particular reference to the problem of absorbing Persian oil into the market in present circumstances. I said that I hoped he would let me know in good time if this was to be done, as I thought you might wish to consider sending out somebody to sit down with him.

(3)

Sir R. Makins to Mr. Eden. (Received September 5)(No. 1917. Confidential)
(Telegraphic)

My telegram No. 1902.

The State Department gave us this morning the full text of a statement which will be issued by the President at 11 a.m. Washington time on September 5.

"In response to a request for urgent assistance from the new Government of Iran, the President has made available on an emergency basis 45 million dollars which will be used for the immediate economic assistance of Iran in accordance with the procedures of the Foreign Operations Administration under the Mutual Security Act. This amount is in addition to existing United States technical assistance and military programmes in Iran.

"There is great need for immediate assistance to restore a measure of stability and establish a foundation for greater economic development and improvement in the living standards for all of the people of Iran. It is hoped that, with our assistance, there will be an increase in the internal stability of Iran which will allow the development of a healthy economy to which an early effective use of Iran's rich resources will contribute".

2. When giving us this text, Byroade said there was no objection from the United States point of view to a statement by Her Majesty's Government to the effect that the matter had been discussed with them in advance and that they were in favour of emergency assistance to Persia by the United States Government. He did not think it would be wise to indicate that the approval of Her Majesty's Government had been either sought or obtained on the exact amount of assistance, since this might be interpreted in Persia as meaning that Her Majesty's Government had dissuaded the United States Government from being more generous. Byroade added that he hoped that the tone of our statement would be sympathetic towards the new Persian Government.

EP 10338/12

No. 59

MEMORANDUM ON SOVIET-IRANIAN RELATIONS*(Communicated by United States Embassy)*

(Confidential)

In his talk with Ambassador Henderson on August 31, Prime Minister Zahedi also mentioned some developments concerning relations between Iran and the Soviet Union. Zahedi stated that in reply to a recent enquiry from the Soviet Embassy, he had stated that Iran desired normal friendly relations with the Soviet Union. He further replied to the Soviet Embassy that such relations were possible provided: (1) the Soviet Union treated Iran as an equal and refrained from making open or impolite threats; (2) the Soviet Union did not meddle with the internal affairs of Iran and especially with reference to providing moral or material support to the Tudeh and other organisations of a subversive nature; and (3) relations between the two countries were maintained on a basis of mutual advantage.

September 2, 1953.

Continuing his talk with Ambassador Henderson, General Zahedi pointed out that Razmara and Musaddiq when Prime Ministers had been too flamboyant in their negotiations with the Soviet Union on various relatively unimportant matters. He thought that it was necessary for Iran to maintain correct relations with its largest neighbour with whom Iran had a common border of more than 1,200 miles in length. Consequently, he had ordered the continuance of the trade negotiations with the Soviet Union at "appropriate levels" which meant between officials in the various interested ministries and the representatives of the Soviet Union. If these negotiations, which were proceeding, were successful, Iran would trade with the Soviet Union but not with strategic materials. He did not think it was to Iran's interest to trade in commodities which would increase the military power of the Soviet Union.

Ambassador Henderson replied that he was sure the United States Government would understand the Prime Minister's position as outlined above and respect it. The Government of the United States certainly did not desire Iran to pursue a policy which could justifiably be considered provocative or unfriendly by the Soviet Union. The Ambassador did remark that he thought that previous Iranian Governments had erred in thinking it was to the advantage of Iran to endeavour to "play off the United States and the Soviet Union against each other". Such attempts were too obvious and resulted only in decreasing the respect of both the Soviet Union and the United States for Iranian sincerity. Such tactics were also resented in the United States because it conveyed the impression that Iran considered that the United States and the Soviet Union had like ambitions of an aggressive or at least a selfish nature regarding Iran. Intelligent Iranians must know that the United States wanted nothing from Iran except that Iran should maintain its independence and improve its economic position. The Prime Minister replied that the Ambassador could be assured that his Government would not indulge in any such childish game.

No. 60

MEETINGS BETWEEN UNITED STATES GOVERNMENT AND UNITED STATES OIL COMPANIES

(1)

Sir R. Makins to Mr. Eden. (Received September 5)(No. 1924. Confidential)
(Telegraphic)Washington,
September 4, 1953.

Your telegram No. 3451.

Wilkinson of Asiatic has given Petroleum Attaché an account of what transpired at the recent meetings between representatives of United States Government and the United States oil companies on the Persian oil problem. Wilkinson is crossing to London on Tuesday September 8 on company business and will report fully on arrival.

2. The United States Government representatives at the meeting were Bedell Smith and Byroade from the State Department and a civilian representative of the Defence Department. The main international oil companies were all invited together with Alton Jones of Cities Service.

3. Apparently the State Department pressed for the formation of an all-American company to buy out the Anglo-Iranian but, according to Wilkinson's reports, the American companies were insistent upon the idea of an Anglo-American Combine, possibly with company registration in a third country. The February proposals were apparently not mentioned.

4. The State Department gave the meetings a top secret label and Wilkinson is of the opinion that they are not likely to approach us for some time. The United States company representatives seem to think State Department are aiming at having a detailed proposal ready before bringing us in.

5. Petroleum Attaché has heard from two usually reliable and quite distinct sources that Nitze will be asked to lend his services to work on the problem.

6. Please pass advance copy to Victor Butler, Ministry of Fuel and Power.

(2)

Foreign Office to Sir R. Makins (Washington)(No. 3479. Confidential)
(Telegraphic)Foreign Office,
September 5, 1953.

Your telegram No. 1924.

1. We are concerned that the State Department should apparently be discussing with United States oil companies plans which are so different from the joint proposals without awaiting our views.

2. We think it urgent to tell you something of our thinking on the official level, as follows. While we recognise that other solutions have been or could be put forward bringing both more material gain to Persia and more effective protection for our own interests, we hold that negotiations must take the February proposals as their point of departure, since the Persians would, we imagine, have the greatest difficulty in accepting anything which took less account of the Persian Nationalisation Laws. Provided, however, that the principles which guided us in framing the February proposals—the payment to A.I.O.C. of fair compensation and the withholding from the Persians of benefits not received by their law-abiding neighbours—were safeguarded, we should be ready to consider any modification to those proposals which the Persians might suggest. Nor do we exclude the possibility that Zahedi may himself be led to request, either during the negotiations or after a settlement on the February basis, arrangements to ensure the more efficient operation of the industry by introducing foreign managers or technicians. We should be very ready to consider such a request.

3. We are about to submit a paper on these lines to Ministers and hope to telegraph formal instructions next week.

4. Meanwhile we must maintain the fullest reservations about any proposal's of the type mentioned in paragraph 3 of your telegram under reference. Apart from Persian objections to foreign management, the buying-out of A.I.O.C. by other oil companies (particularly United States) would have serious political implications here. See the Chancellor's letter of May 19 to Mr. Humphrey, on whose plan the present proposals seem based.

5. We leave it to you to decide whether on the basis of this telegram to say anything to the State Department in anticipation of your instructions in the hope that they will keep an open mind meanwhile.

(3)

Foreign Office to Sir R. Makins (Washington)

(No. 3530. Confidential)
(Telegraphic)

*Foreign Office,
September 10, 1953.*

My telegram No. 3479. Paragraph 3 [of September 5].

My immediate following telegram contains the text of a memorandum which you should hand to the State Department as soon as possible.

2. It is broadly drafted and does not seem to require any supplementary instructions. There is however one point which for tactical reasons here we have omitted i.e. that we regard the proposal to refer the issue of compensation to impartial arbitration as part of the "substance" of the joint proposals (see paragraph 8(b) of my immediately following telegram) and thus incapable of variation.

3. If the State Department raise this question, you should make it clear that this is our view.

(4)

UNITED KINGDOM PROPOSALS FOR A SETTLEMENT OF THE OIL PROBLEM

Foreign Office to Sir R. Makins (Washington)

(No. 3531. Confidential)
(Telegraphic)

*Foreign Office,
September 10, 1953.*

My immediate preceding telegram.

Following is text:

Her Majesty's Government are anxious that General Zahedi should be enabled to establish his position and they recognise the importance of the contribution to this which would be made by a settlement of the oil question.

2. Her Majesty's Government consider that any discussions with him should start from the Joint Proposals of February 1953. It is true that these were only made as a last resort, when many other possible solutions had been tried and failed; and that other solutions (e.g. of the type earlier rejected by Musaddiq) would be of more economic advantage to Persia and

more acceptable to Her Majesty's Government. But in the absence of evidence to the contrary we must assume that General Zahedi would be unable at the moment, to accept anything taking less account than did the Joint Proposals of the Persian Nationalisation Laws.

3. Any settlement to be acceptable to Her Majesty's Government must, in the interests of Britain and of other countries whose nationals own oil concessions in foreign countries, ensure:

- (a) that the A.I.O.C. should receive fair compensation for the loss of their enterprise in Persia;
- (b) that Persia does not do better than her neighbours out of her oil.

In addition Her Majesty's Government regard it as essential that a Persian settlement should not do substantial damage to the United Kingdom's balance of payments.

4. The February Proposals contemplate these as our minimum requirements and thus represent Her Majesty's Government's ultimate concessions. They were also prepared with great care and so designed as to be palatable to Persian opinion as Musaddiq represented it to be; and although they failed to secure his acquiescence, too much should not be made of this failure, since there is reason to believe that Musaddiq was in fact not really desirous of reaching any settlement of the dispute at all.

5. If, therefore, as seems likely, General Zahedi cannot start negotiations on any other basis than the Joint Proposals, the latter still represent the best chance of securing agreement.

6. Her Majesty's Government are prepared to consider variations of detail and form in the Joint Proposals, but cannot usefully do so until they have some indication of what General Zahedi believes himself able to sell to Persian opinion: and they feel strongly that to take the initiative in offering variations might give him the false impression that they are prepared to make modifications of substance which would be inconsistent with their minimum requirements as set out in paragraph 3 above.

7. Her Majesty's Government understand that the Persian Government see the best hope of a settlement in highly secret negotiations. The Persians, they believe, are anxious also to avoid moving too fast and to have a thorough discussion of all the issues involved. Her Majesty's Government welcome these views and consider that their objects can best be secured by the resumption of direct contact between themselves and the Persian Government, either through diplomatic channels or otherwise. They would of course hope that the United States Government would associate themselves with these negotiations.

8. In the actual negotiations, Her Majesty's Government would propose to be guided by the following:—

- (a) Her Majesty's Government are anxious to co-operate with General Zahedi in finding an equitable solution to the dispute.
- (b) If General Zahedi wishes to start on the basis of the Joint Proposals, they would be ready to consider any modifications in their presentation which General Zahedi thought would make them more palatable to Persian opinion, although their substance, embodying as it does Her Majesty's Government's ultimate concession would not be capable of variation.
- (c) If, on the other hand, he considers that a more acceptable solution from the Persian point of view could be evolved from one or more of the proposals put to Musaddiq before February 1953, Her Majesty's Government would be equally ready to consider his suggestions. But it would be important that the Persian Government should make the first suggestion on the form that any new agreement might take.
- (d) If the Persian Government wished, Her Majesty's Government would be willing to consider an interim arrangement which might make possible an early resumption of oil exports and revenue without waiting for the full formulation of a permanent settlement. Such an interim arrangement would have to include suitable provision for an Escrow account to give effect to the principle of compensation, and to be so designed as to safeguard the principle stated at 3(b) above. It would be essential also that the provisions of the interim arrangement should be such as to reserve the legal position of the parties pending the final settlement.

9. Her Majesty's Government would be grateful to learn the United States Government's views on the proposed approach to the Persian Government and in particular:

- (a) Whether the United States Government would still be prepared to play the part assigned to them by the Joint Proposals of February 1953;
- (b) Whether they or Mr. Henderson are in a position to assess, without making enquiries of General Zahedi, the latter's probable response to an approach on the lines of paragraph 8 above; and also which of the three courses therein contemplated is likely to be least distasteful to Persian opinion;
- (c) Whether they agree with Her Majesty's Government that General Zahedi should be informed at an appropriate moment of their views on the method of negotiation as set out in paragraph 7 above; and how much if any of the views of Her Majesty's Government as set out in paragraph 8 could usefully be communicated to him before negotiations begin.

(5)

Sir R. Makins to Mr. Eden. (Received September 12)

(No. 1961. Confidential)
(Telegraphic)

Your telegrams Nos. 3530 and 3531.

I gave the memorandum to Bedell Smith this afternoon. He said he would study it. He went on to say that in his view there were two stages in this affair. The first was a settlement between the United Kingdom and Persia and the second was an agreement about the absorption of Persian oil into the world oil market between the principal oil companies. As regards the first, his position was that this was an affair for us and he was not going to preach to us what we should do. Nor did the State Department wish to butt in on the negotiations. But he now thought that this part of the business might be easier than the second. He had had some meetings with the heads of the big oil companies in the United States and, while they all agreed that there should be some cut-back in production to make room for Persian oil, they were pretty hard faced when it came down to any details.

2. I said he wou'd see that the memorandum in fact contained an invitation to the United States Administration to associate themselves with the negotiations. I thought he would find the memorandum both open minded and flexible, and he would see that we were asking the views of Loy Henderson and the State Department on its contents.

3. Bedell Smith then said that the State Department had acquired the services of Mr. Herbert Hoover, Jr. to assist them, particularly in the second part of the problem. Mr. Hoover had made it a condition that he should not be thwarted by the Department of Justice on the Anti-Trust side.

4. Counsellor also saw Byroade today and gave him a copy of the memorandum. Byroade made some personal comments which you may find of interest and which are contained in my immediately following telegram.

(6)

ANGLO-AMERICAN SUGGESTIONS FOR A SOLUTION OF THE OIL PROBLEM

Sir R. Makins to Mr. Eden. (Received September 12)

(No. 1962. Confidential)
(Telegraphic)

My immediately preceding telegram.

At first sight Byroade thought that there was much to be said for your plan of trying to make the Persians show their hand first. He said, however, that he understood from the United States oil companies that the A.I.O.C. were interested in the idea of a syndicate, including Shell and certain American interests, to take over the Persian concession. Personally, he was inclined to agree that a proposal of this kind, which appeared to involve operations on Persian territory by a foreign company, would not be acceptable to the Persian Government.

2. Byroade saw one grave obstacle to the use of the February proposals as a basis for negotiation now. This was that the United States Government, having already made an emergency grant of 45 million dollars to Persia and being short of cash generally, would no longer be in a position to make the advance payment of 130 million dollars. For this reason he was attracted by the suggestion that there might be an interim agreement under which the oil could begin to flow again in advance of a permanent settlement.

3. He asked whether we had any suggestion as to where and at what level the secret negotiation suggested in paragraph 7 of your telegram No. 3531 should take place. He expressed doubt whether the Persians had an oil expert in whom they would have sufficient confidence for him to negotiate effectively away from Teheran.

4. Byroade said that the State Department would make the enquiries requested in paragraph 9(b) and (c) of your telegram under reference. Meanwhile his observations shou'd be treated as first thoughts only. The State Department would not be in a position to take decisions until Hoover, who was coming into the Office for the first time today, had been able to study the problem thoroughly.

5. Byroade then said that it would be necessary to tell the press something about Hoover's appointment. The press would, in any case, find out what he was doing and it might be simplest to say at once that he had been engaged to study the Persian oil problem. It was suggested to Byroade that it might be more prudent to say that Hoover was studying problems connected with Midd'e East oil. He was told that your views on this would be obtained as quickly as possible. He said he would try to hold up an announcement meanwhile but was not certain that he could do this.

EP 1151/24

No. 61

CONVERSATION BETWEEN THE ACTING SECRETARY OF STATE AND THE UNITED STATES AMBASSADOR ON SEPTEMBER 14, 1953

The Supply of Rails from the United Kingdom for Persian Railways

The Marquess of Salisbury to Sir R. Makins (Washington)

(No. 959. Confidential)
Sir,

Foreign Office,
September 14, 1953.

In conversation this afternoon the American Ambassador raised one comparatively limited point with regard to Persia. He said that his Government had received from the American Ambassador in Persia a message emanating from the new Persian Government with regard to a consignment of rails which had been ordered in Britain by Persia in the days before the breaking off of diplomatic relations between the two countries. The Persians were very anxious that these rails should now be delivered. The earlier consignments had already reached them before the breaking off of relations and also a number of bolts, spikes, &c. But this last consignment of rails was necessary before they could begin operations on the railway, which I understood was to run between Maineh and Maraqheh.

2. I told the Ambassador that I would look into this matter at once. This was just the sort of assistance which I thought we might be able to give to the new Persian Government and which would be a positive example of improved Anglo-Persian relations.

3. I am sending copies of this despatch to the Head of the British Middle East Office and to the Development Division of the B.M.E.O.

I am, &c.
SALISBURY.

EP 15316/32

No. 62

CONVERSATION BETWEEN GENERAL ZAHEDI AND AMBASSADOR HENDERSON

(Communicated by United States Embassy on September 18)

(Confidential)

On the evening of September 14th, Ambassador Henderson had a brief conversation with Prime Minister Zahedi concerning the oil problem. According to the Ambassador, it was apparent from the conversation that Zahedi had not had a chance as yet to give serious consideration to this problem. Although he seemed to appreciate the fact that the demand for oil now was not what it was in 1951, he seemed quite uninformed as far as details were concerned.

2. The Prime Minister stated that he had discontinued oil sales at a discount as such sales represented a financial loss especially when at the same time a certain percentage of the sales was being set aside for compensation. Furthermore, a continuance of the practice might make more difficult the marketing of Iranian oil at world prices in the future.

3. He asked the Ambassador if the latter had any information as to (1) the channels through which the United Kingdom would like to negotiate; and (2) the type of settlement acceptable to the United Kingdom. He wondered if Anglo-Iranian as a goodwill gesture would be willing to advance the £49 million which he understood Anglo-Iranian admitted as owing to Iran. Ambassador Henderson replied that such a payment was out of the question—the Prime Minister's information was based on the deceptive propaganda of the Musaddiq Government and that it would be most unfortunate if his Government should raise issues as unrealistic as those developed by Musaddiq. The Ambassador explained to Zahedi the spurious reasoning by which the Musaddiq Government had concluded that Iran was owed £49 million by Anglo-Iranian.

4. The Ambassador went on to say that as yet he had no idea as to the type of settlement which the United Kingdom would accept. He thought that the British were currently studying the question in the light of the new situation. The Ambassador then mentioned the February 20 proposals, pointing out that they were based on the situation prevailing at the time. He did not know whether the proposals still held good or whether they were still considered by the United Kingdom and the United States as the best method of reaching a settlement under present conditions. The Ambassador explained United States Government involvement in the proposals as resulting from the United States Government's offer to purchase, under certain conditions, quantities of oil and to make an advance payment should the United Kingdom's offer regarding compensation be agreed to. In reply to a question by the Ambassador, Prime Minister Zahedi said he had not had time to study the February proposals

yet. It had been difficult to compile the documents as apparently the originals had been burned in Musaddiq's house. He wondered if Ambassador Henderson might sometime explain the proposals to him in detail. The Ambassador replied that he would be quite happy to do so provided the Prime Minister appreciated that he was not negotiating but only explaining what had taken place in order to enrich the Prime Minister's background. It was quite possible that from the point of view of the Iranian Government, which he knew was most anxious to sell its oil, that the proposals might be deficient in that they did not provide a definitive plan for resuming immediately the sales of Iranian oil in substantial amounts. The proposals were primarily aimed at settling the compensation issue. This the Ambassador thought was because Musaddiq apparently was anxious to separate the question of compensation from that of future sales.

5. The Ambassador said that although he did not know as yet what channels the United Kingdom would prefer to use in the negotiations, he had the impression that in the past the British had considered direct negotiations the most effective way. This was quite natural as direct negotiations might well result in a speedier settlement than those handled by intermediaries. The Prime Minister voiced the personal opinion that the channels which had been employed in the past might be easier but none the less he would like to utilise channels acceptable to the British.

6. He said he assumed that it was understood that it would be difficult for his Government to negotiate outside the framework of the Iranian 9-point Nationalisation Law. The Ambassador told Zahedi that in any event the latter should lose no time in studying the oil problem preparatory to the commencement of negotiation and voiced the hope that as advisers Zahedi would use realistic technicians rather than theoretic dreamers and politicians. The Ambassador also pointed out that although the settlement of the compensation issue was primarily political in scope, any settlement which involved substantial sales of Iranian oil would have to be on a commercial basis. The oil companies who were in a position to distribute Iranian oil in large quantities could not be expected to pay more for it than oil obtainable in plentiful quantities elsewhere. Zahedi replied that although he understood this situation, he felt it would not be easy to make the Iranian people understand in view of the propaganda in Iran over the past two years.

7. The subjects of the resumption of diplomatic relations with the United Kingdom was not raised by the Prime Minister during the conversation and the Ambassador considered it inopportune to bring it up himself. The Ambassador did, however, mention it to the Prime Minister's son when the latter was escorting him to the car. The son thought that his father still considered that it would be preferable to wait until it was apparent from conversations or feelers that an oil settlement could speedily be reached. He did not think, however, his father held firm views on the problem and probably would be influenced by British thinking concerning the problem.

EP 1015/242

No. 63

SHAH'S CONCERN AT THE WEAKNESS OF THE NEW GOVERNMENT

(Communicated by United States Embassy on September 22, 1953)

1. Ambassador Henderson had a ninety minute talk with the Shah on the morning of September 18. The Shah said he was concerned at the growing number of complaints concerning the new Government. The complaints seemed to centre for the most part on the weakness of various members of the Cabinet and the appointment in key posts of men who had previously proved themselves incapable or dishonest. The most recent complaints were that incompetent and dishonest people were being retained and even introduced into the Ministry of Justice. The army had also been weakened by Zahedi's bringing back into active service retired, corrupt and incompetent officers. He had warned Zahedi on several occasions concerning this but the latter apparently had paid no heed to his warnings.

2. The Ambassador replied that he found the Shah's remarks disheartening as he was convinced that both the Shah and the Prime Minister were well-intentioned and desired to work together. He was worried that they were not being frank with one another. He considered Zahedi the type of man with whom the Shah could and should speak openly and thought that the Shah should encourage Zahedi to express his views frankly as otherwise, because of his deep respect of the Shah, Zahedi would almost be sure to hesitate to disagree with the Shah.

3. The Ambassador informed the Shah that there were various rumours in Tehran that the Shah and Zahedi were not in agreement concerning the army. Some people were saying that Zahedi was taking actions with regard to the army without consulting the Shah, while other people were saying that the Shah was issuing instructions direct to the Chief of Staff

without consulting Zahedi. This sort of situation was one which the Tudeh and other enemies of both the Shah and Zahedi would delight. The Shah said that if the Prime Minister would realise that he had nothing to do with the army there would be no differences. Zahedi apparently found it difficult to remember that as a Prime Minister he was a civilian and not an army officer. The Shah was quite prepared to listen to anything Zahedi might say personally and confidentially concerning the army, but was not willing to permit the Prime Minister to give advice openly.

4. The Ambassador pointed out that in the present delicate situation, the political stability of the country might well be affected by changes in the army's high-ranking personnel or organisation. The Shah consequently should make no such changes without at least informing the Prime Minister in advance. The Shah replied he was willing to do this but was not prepared to promise to refrain from any action with regard to the military simply because the Prime Minister objected. As Commander in Chief of the Army he could give orders to the Chief of Staff without going through the Prime Minister. The Prime Minister on the other hand could not give orders to the Chief of Staff without going through the Minister of Defence who would have the opportunity of consulting the Shah before conveying such orders. The Ambassador suggested that in general orders of importance from the Shah should be channelled through the Prime Minister and Minister of Defence to the Chief of Staff, as otherwise the Prime Minister and Minister of Defence might have no knowledge of certain developments for which they should be prepared. The Shah repeated that he intended to inform the Prime Minister in advance of any important instructions he intended to give to the Chief of Staff, but he did not indicate willingness to send his instructions through the Prime Minister.

5. According to the Shah, another criticism of Zahedi's Government was that it was doing nothing to reduce unemployment or to develop the country economically. The Ambassador said he thought such criticism unfair and then explained some of the financial difficulties which the Government had to face. The Government had not only inherited bankruptcy, but an inflexible fiscal system which hampered its activity. The Shah said he realised the criticism was unfair but none the less he was concerned about it. He considered the Government partly to blame in that it had been very ineffective in making known to the Iranian public its difficulties.

6. In reply to a question from the Shah, the Ambassador said he had not been pressing for early elections but had pointed out to the Prime Minister difficulties which Iran might encounter should there be no Majlis by March 1. The Shah said he thought it might be dangerous to hold elections before the Government had undertaken a development programme of wide impact to convince the people it intended to assist them, not by promises but by acts. The Ambassador replied that the Government was not in possession of sufficient funds to implement such a programme and probably would not have such funds until an oil settlement was reached and there were a Majlis to ratify it and to approve any loans.

7. The Shah replied that if the United States were more interested in saving Iran from communism than in achieving a settlement of the oil controversy he could see no reason why additional credits could not be granted by the United States Congress in January in order that a public works programme could be undertaken in Iran before elections were held. He wondered if the United States wanted an oil settlement at the expense of Iran's independence. The Ambassador replied that he thought if there were no oil settlement, Iran would probably lose its independence anyway. It seemed to him quite beyond the realm of possibility that Congress would grant more credits to Iran unless an oil settlement were reached or at least in prospect. The American public would not permit Congress to take such action. In addition, British public opinion would be incensed and would bring pressure to bear on the Government of the United Kingdom. The Shah knew as well as he that should the United States and the United Kingdom work at cross purposes in Iran, the Russians would have a clear field. The Shah agreed but expressed the fear that free elections without an economic development programme would bring back to the Majlis many rabble-rousers and irresponsibles would bring the operation of the Government to a standstill. The Shah thought that in the circumstances it might be safer to have "supervised" elections. The Ambassador said that the Shah and the Government were in a better position to judge in this respect than he was. He did venture the remark, however, that if the Shah felt elections should be supervised, the aim should be to fill the Majlis with intelligent, loyal and patriotic Iranians who possessed qualities of leadership rather than second raters. The Shah said he fully agreed but before elections could be held on this basis it was necessary for Zahedi to weed out doubtful members from his Cabinet and advisers in several ministries. The most important step, however, was to strengthen immediately the morale and equipment of the army.

8. Then with great earnestness the Shah pointed out the needs of the army. He said that the financial situation of army personnel, particularly non-commissioned officers and commissioned officers up to the rank of captain was unbearable and consequently he had been forced to promise them better housing conditions and increases in salary. He could not be sure of army morale until this had been done. With army morale intact, he thought the Government would be safe even if it were impossible to institute the economic programmes he desired. With a loyal army he would not hesitate, in the event that supervised elections

should fail to produce a "good Majlis", to disapprove the Majlis and exercise a dictatorship until impact programmes would prepare an atmosphere conducive to a second round of elections. He hoped the Government of the United States appreciated the importance of a loyal army to Iran in the present difficult circumstances.

9. In a general discussion on Iran's economic situation, Ambassador Henderson told the Shah that he thought Iran's best financial brains should be used in working out Iran's financial difficulties. In response to a question by the Ambassador, the Shah said he had urged Zahedi to bring Ebtehaj back but the Prime Minister had apparently done nothing to effect Ebtehaj's return as yet. He thought Ebtehaj a much more capable and trustworthy man than the present Minister of Finance.

10. In returning to the Majlis problem, the Ambassador said that it seemed to him that in the near future it would be necessary to pass legislation concerning the oil settlement, concerning the reform of the fiscal and taxation system, concerning possible loans, etc. With regard to loans, the Shah replied that several European countries had indicated willingness to advance substantial sums to Iran on a loan basis. Credits to the extent of even \$200 million had been mentioned by German bankers and industrialists. Interest had also been shown by Japan in furnishing credit in return for future oil deliveries.

11. The Ambassador replied he was sure that any credits which Japan and European countries were prepared to offer Iran were based on an assumption that an oil settlement would be reached. Iran should not build up any false hopes as it was inconceivable that any responsible group of foreign business men would make loans or make substantial investments in Iran as long as the present abnormal situation persisted. Iran's international credit was worthless in the absence of an oil settlement. It would be a great tragedy if Iran should erroneously decide that it could play one group of business men in the free world against another in the absence of an oil settlement. Consequently, he should bring all his influence to bear to effect at the earliest possible moment a settlement of an oil agreement.

12. In reply to a question from the Shah, the Ambassador said he did not have any ideas as yet as to what would be necessary to effect a settlement of the oil problem. He was sure that Iran would find the United Kingdom full of good will and anxious to reach a settlement that was fair to both countries. It could not be expected, however, that the United Kingdom would sacrifice principles on which international intercourse must be based in order to reach a settlement. The Shah wondered whether it would be preferable to re-establish diplomatic relations with the United Kingdom before reaching an oil settlement. It was his personal opinion that the oil settlement should come first. The Ambassador said he did not know what the British attitude on this point was but he thought diplomatic relations should be resumed and an oil settlement effected without delay.

No. 64

DESIRE BY THE SHAH TO RESUME NEGOTIATIONS

Sir G. Jebb to Mr. Eden. (Received September 26)

(No. 807. Confidential)
(Telegraphic)

Your telegram No. 871.

Following from Minister of State.

I had a talk with Entezam to-day. He said that the Shah and Persian Prime Minister had asked him to have a talk with me about the resumption of negotiations. The Shah wished him to assure me of his deep desire for friendly relations again and that he would do all he could to help.

2. I told him of our keen interest in the success of the new Government in stabilising conditions and that we too are most anxious to restore the old friendship between our two countries. I asked how things were developing and whether he thought the new Government were firmly in the saddle. He said emphatically that there was no question of the Government being overthrown, and that they had the situation firmly under control.

3. Entezam said that the Shah had particularly asked him to impress on me the fact that their looking to the United States for immediate financial aid was in no way intended to drive a wedge between the United States and ourselves. He went on to imply that Persia would much rather deal with us direct and not have the United States as an intermediary.

4. I raised the question of the resumption of normal diplomatic relations in a tentative way and asked him at what stage he thought it would be most helpful. He said that of course there would have to be a full resumption of normal relations before any oil agreement could be signed. It would however be rather difficult for them to resume relations before any talks at all had taken place, though he quite appreciated the convenience of having normal methods of communication.

5. I asked what procedure he had in mind for getting the talks going. He said that the Shah and the Prime Minister had thought of the following places: New York, Washington, Geneva, New Delhi and Paris. They did not like the idea of doing it in the United States (I suspect this is partly because Entezam himself does not want to deal with the details). They thought Geneva would be too public. One reason why they had considered New Delhi was because Middleton was there in whom they had great confidence. I said it would be difficult to have India as the mediator in every dispute in the world, moreover, Pakistan, Persia's neighbour was rather jealous of India's position. Entezam said that precisely the same considerations had been mentioned by the Shah. Accordingly they had come to the conclusion that Paris would be far the best place. The Persian Ambassador Designate for Paris was Rais who had been Ambassador in London and Foreign Minister and was very suitable. I said that the company would have to be in close touch with any negotiations and for that reason I too thought Paris would be conveniently near to London.

6. I asked Entezam how soon he thought that we should try to start in this way provided that Her Majesty's Government agreed. He replied that he thought in about a month. I impressed on him that from my point of view this was a very tentative conversation and that I would have to communicate with you before saying anything definite. He said that he proposed to write to his Prime Minister reporting our talk. I said I would consult you and try to talk to him again soon so that he could cable your views on these suggestions. We did not discuss the possible types of settlement at all. I said that, supposing you agreed to the above, it might be that he and I could carry matters a little further before the informal talks began.

7. I kept open the possibility that we might wish for the resumption of diplomatic relations before detailed negotiations. My own view however is that it would be better at all events to begin in the way suggested particularly as the initiative has come from them.

8. I should like your views soon. I believe that speed at this stage on this limited point is advisable.

No. 65

AMERICAN VIEWS ON THE FUTURE OF THE OIL DISPUTE

Sir R. Makins to Mr. Eden. (Received September 26)

(No. 2030. Confidential)
(Telegraphic)

Washington,
September 25, 1953.

Your telegram No. 3704.

Butler accompanied by Beeley and Beckett, met Byroade and Hoover this afternoon.

2. The Americans said they had no specific proposal to put forward as a basis for settlement. The consideration they had so far given to the problem had led them to the following tentative conclusions:

- (a) That, primarily for reasons of internal Persian politics, a settlement should be sought with as little delay as possible;
- (b) That the February proposals were open to serious objections. On the one hand it seemed likely that the arbitration formula, involving as it did compensation for future profits, would be as unacceptable to the new Persian Government as to Musaddiq. On the other hand Persia would, after the end of the 20 year period, be doing better than her neighbours out of her oil. A settlement on these lines would therefore imperil the other concessions in the Middle East and elsewhere, and Hoover expressed the view that, for this reason, we should exhaust every other possibility before falling back on the February proposals;
- (c) That it was difficult to see how the 50/50 principle could be applied to Persia except by means of arrangements for the operation of the industry on Persian territory which would, in fact, amount to a new concession, however it might be camouflaged to make it acceptable to Persian public opinion. Some doubt was expressed as to whether this was practicable, and it was agreed that both sides would examine the Persian Nationalisation Law again before the next meeting.

3. Your telegram No. 3709 did not arrive until after the meeting. We will make these points at our second meeting tomorrow morning.

PROPOSALS FOR A SYNDICATE TO MARKET PERSIAN OIL

Sir R. Makins to Mr. Eden. (Received September 26)

(No. 2036. Confidential)

(Telegraphic)

Your telegram No. 3709.

The Americans opened the second meeting this morning by showing us a telegram from Henderson in answer to a request for his views on the proposal that a syndicate should be formed both to market Persian oil and to operate the oil industry in Persia. The telegram, a copy of which follows by bag, is a powerful argument against any proposal of this kind.

2. The Americans admitted that Henderson's opinion was an important new factor in their consideration of the problem. They still thought, however, that there would be advantages in working out the syndicate proposal in greater detail, and Butler is meeting Hoover this afternoon for this purpose.

3. We then informed them of the views stated in your telegram under reference. They agreed that it would be premature for Henderson to discuss the February proposals with Zahedi, and in fact had already instructed him to avoid being drawn into a discussion of this kind if possible. They are toying with the idea of sending Hoover to Persia on an exploratory mission, and would be glad to have your comments on this possibility. He would not attempt to negotiate with the Persian Government. His objects would be:

- (a) to explain to the Persians some of the background, with particular reference to the marketing of the oil and the attitude of the companies to this problem; and
- (b) to form an assessment of the political situation and the limits which it imposes on the type of solution we could usefully propose.

In view of the probable delay in restoring diplomatic relations between Persia and the United Kingdom, and the importance of beginning to educate Zahedi and his advisers before their ideas crystallise, there would seem to be substantial advantages in a visit of this kind.

4. Byroade expressed the opinion that the existing arbitration formula would not be acceptable to the new Persian Government. He pointed out that it had been drafted in order to counter public statements from Musaddiq to the effect that compensation could only be awarded for the loss of physical assets. Since Zahedi had not made any such claim, he thought we should be sufficiently safeguarded if the court were simply asked to award compensation to the company for losses resulting from the Persian Nationalisation Law. If we insist on the terms of the February formula, Byroade believes that it will be necessary to abandon the February proposals and make a new approach to the problem.

PROPOSALS FOR AN INTERIM SETTLEMENT

(1)

Sir R. Makins. (Received October 1)

(No. 2067. Confidential)

(Telegraphic)

My telegram No. 2036.

A third meeting was held this afternoon, at which we agreed to submit to you proposals for an interim settlement which are briefly outlined below and which will be more fully explained in a letter which Butler is sending Maud by bag, amplifying his letter of September 29.

2. The proposal is that the International Bank, in the capacity of a trustee, should operate the industry for a limited period (which might be 2 years) with a view to creating conditions in which it would be easier than it is at present to negotiate a satisfactory permanent settlement. The Bank has not been formally approached, but Hoover has seen Prudhomme and feels little doubt that the bank would accept this task, provided it was allowed to exercise effective control over all operations in Persia. The Persian Government would receive a price per ton not greater than the comparable revenue of neighbouring countries.

3. The legal rights of Anglo-Iranian and the Persian Government would be fully reserved during the period of management by the International Bank, but Anglo-Iranian would of course be asked to waive their claims in respect of oil sold by the Bank. It is contemplated that the Bank would make individual contracts with the major marketing companies for the disposal of the oil. For the operation of the industry in Persia they would employ an American or an international firm of consulting engineers which would borrow personnel as necessary from the oil industry.

4. If after studying the more detailed explanation of this proposal which you will be receiving from Butler, you agree that it should be explored further with the Bank, with the industry and with the Persian Government, it is suggested that Hoover, if he goes to Tehran and finds the atmosphere propitious, should try to ascertain whether some such basis for negotiation would be acceptable to the Persians. He would return to Washington by way of London, and if his report is encouraging the State Department are disposed to agree that we should then try to restore diplomatic relations.

5. If you agree with this programme Hoover would like to leave for Tehran about the end of next week. A telegram from Henderson reporting a conversation with the Shah on this subject follows by bag.

(2)

REPORT ON DISCUSSION WITH THE SHAH ON THE RE-ESTABLISHMENT OF RELATIONS WITH THE UNITED KINGDOM

Sir R. Makins to Mr. Eden. (Received October 2)

(No. 804 Saving. Confidential)

Washington,

September 30, 1953.

My telegram No. 2067, paragraph 5.

Had audience with Shah September 29. Among subjects touched upon were oil and re-establishment relations United Kingdom. He asked if I had any recent information re exploratory conversations on oil taking place Washington. Did I honestly believe British wanted oil settlement? It was his understanding A.I.O.C. would be embarrassed if put under pressure, to take any Iranian oil.

I told Shah I sure British wanted oil settlement. Although no large international oil companies had desire purchase Iran oil nevertheless everyone realised that without oil settlement Iran would be hopelessly ruined. No one except Communists and fellow travellers in western world wanted that to happen. United Kingdom just as interested as United States in seeing Iran independence preserved. If Government and people Iran would take realistic view international oil situation oil problem could be settled in manner advantageous to all parties concerned.

Shah asked if I had any idea what United Kingdom had in mind. I replied in negative. He asked if I had any further ideas how United Kingdom would like settlement be negotiated. I replied I thought United Kingdom prefer direct negotiations as most sensible quick way arriving settlement provided both parties would meet in spirit goodwill. Shah said "why then did not negotiations start?" I replied in my opinion neither side quite ready and neither side certain as to how first approaches might best be made.

Shah asked if I had any further information whether British would prefer re-establishment relations before oil settlement or simultaneously with oil settlement. I said, although I not in position express British views I thought British would prefer re-establishment of relations as soon as possible even though for time being there might be only Chargé d'Affaires in Tehran. Shah replied he personally still believed it would be better for relations to be re-established at end of oil settlement because:

- (a) He was afraid British Embassy would be target for attacks and criticism which would stir up feelings in case negotiations for settlement would run into difficulties;
- (b) He feared if settlement effected enemies of west might claim that British Embassy had intrigued to bring about settlement unfavourable to Iran.

I said on other hand continued absence of diplomatic relations might well irritate British public and also numerous and influential friends of United Kingdom in Iran. If United Kingdom friends in Iran should obtain impression present Government following Musaddiq line re British they might withdraw such credit as Government was receiving from them at present. It would be a serious matter if present Government without unqualified support of Iranian elements friendly to United Kingdom should be compelled to cope with Tudeh sympathisers and Musaddiq adherents.

Shah asked what in my opinion was British attitude just now towards present Government. I said I convinced British Government wished present Government success in its undertakings. Shah asked if I sure this fact. I replied in affirmative, pointing out failure present Government in existing circumstances could result in disaster to Iran and great damage to western world.

Shah said he had asked these questions because he had observed increasingly critical attitude towards present Government on part of many pro-British Iranians. He wondered whether this indicated United Kingdom had changed its attitude towards present Government and towards himself.

I said I had also observed that certain groups known to be specially friendly to United Kingdom were beginning engage in anti-Government campaigns. I was sure these groups were acting on their own without British guidance because they resented absence friendly gestures on part present Government towards United Kingdom. One advantage of presence British Embassy in Tehran would be that that Embassy by demonstrating friendliness towards Shah and Government might cause these pro-British elements to realise their present hostile attitude unwarranted.

Shah said he would further study matter re-establishment relations. He thought speedy settlement oil problem would really be best solutions.

No. 68

REPORT OF ELECTIONS FOR A NEW MAJLIS

Foreign Office to Sir R. Makins (Washington)

(No. 3821. Confidential)
(Telegraphic)

We understand (a) that State Department have shown you a telegram from Henderson reporting that Zahedi is contemplating elections to bring Majlis membership from twenty-three (its present figure) to eighty; (b) that Henderson hopes that he may be authorised to tell Zahedi that we and United States Government will be able to accept the ratification of International Agreements by such a Majlis; (c) that the United States Government for their part are disposed to agree.

2. The enquiry is awkward, because it might be interpreted as an advance request to connive at an unconstitutional ratification. Contrary to what General Zahedi has apparently suggested, it would not appear that a similar question was considered at the time of the February proposals.

3. In so far as Zahedi appears to have asked whether we should consider ratification by a reduced Majlis constitutional, our formal reply would be that Her Majesty's Government could not make an agreement with Persia unless it were concluded and ratified in a manner valid under Persian law. The Persian Government would have to satisfy themselves that the procedure followed for ratification was constitutional and Her Majesty's Government are entitled to expect that they would do so.

4. We agree with Henderson that ratification by a full Majlis would be preferable. We do not understand why, if General Zahedi is prepared to have fifty-seven new elections to fill seats unfilled in the elections of Spring 1952, he should not go the whole way and hold similar elections to replace those members who resigned before Musaddiq fell. It is particularly unfortunate that his present scheme should not provide for the attendance in the Majlis of all the Tehran deputies (of whom several resigned in July) since under Article 6 of the Constitution their vote is valid in the absence of provincial deputies.

5. Please put these views to the State Department.

No. 69

DESIRE BY THE SECRETARY OF STATE FOR A RESUMPTION OF DIPLOMATIC RELATIONS

Mr. Eden to Sir Gladwyn Jebb (New York)

(No. 927. Confidential)
(Telegraphic)

As soon as I got back to the Foreign Office the Minister of State told me of your recent talk with him. Would you please convey to the Shah and the Prime Minister my thanks for this initiative. I feel that the best way to begin this new phase is for us to resume diplomatic relations. We are ready to do this and I am sure that everything will be easier when we are in direct touch. Perhaps you could ask your Government to consider this. Meanwhile either the Minister of State, or, if he has not returned to New York, Sir Gladwyn Jebb, will be ready to discuss the matter further with you.

No. 70

MESSAGE TO MR. DULLES FROM THE SECRETARY OF STATE

Mr. Eden to Sir R. Makins (Washington)

(No. 3872. Confidential)
(Telegraphic)

*Foreign Office.
October 6, 1953.*

My telegram No. 3793 [October 1]. Please give Mr. Dulles the following message from me.

2. I have just got back and at once looked into recent correspondence about Persia. The first thing that struck me was the admirable way in which Henderson had handled matters, and I should be very glad if you could let him know how grateful I am for the part he has played.

3. I am no less grateful for the study which your people in the State Department have given to the problem, and for your readiness to send Hoover out to Tehran. I entirely agree that in everyone's interests, and particularly in Persia's, we must try to solve the oil question as soon as possible, always provided of course that this can be done without detriment to other vital interests. But I feel strongly that our immediate aim should be to re-establish diplomatic relations. You will not misunderstand me I am sure if I say that negotiations through intermediaries, however trusted and well briefed, can be no completely satisfactory substitute for direct contact. Sooner or later we should have to come into the talks, and from all points of view it would in my opinion be preferable for us to be in them from the start. In any case, on general political grounds it is foolish for this estrangement between us and Persia to go on any longer.

4. While therefore I gladly accept the suggestion that Hoover should go to Tehran, I should like to see his purpose defined as follows:

In co-operation with Henderson—

(a) to make clear that we want to re-establish relations as soon as possible and shall be

ready to do so whenever the Persians are;

(b) to assess the political situation in its relation to the oil problem, having discussions for this purpose with the Shah and General Zahedi; and

(c) to explain to them the problems involved in putting Persian oil back on the market, and to try to elicit what ideas the Persians themselves have about a possible settlement.

5. I hope you will be able to agree to that definition. Meanwhile, the latest proposal [Washington telegram No. 2067] is being considered urgently and we will let you have our comments as soon as possible. I very much hope Hoover will not leave until you have them. We should much like to see him here both on his way out and on his return.

EP 1051/23

No. 71

MESSAGE FROM THE SHAH TO THE SWISS MINISTER : SHAH'S DESIRE TO RESUME DIPLOMATIC RELATIONS WITH THE UNITED KINGDOM

(Confidential)

October 8, 1953.

I lunched today with M. Bernath, the Counsellor of the Swiss Legation, who gave me the following information. The Shah had instructed his Private Secretary, a Swiss named Perron, to see the Swiss Minister in Tehran and ask him to try to find out whether we would be in favour of resuming diplomatic relations before oil negotiations started. The message gave the following background also: the Shah and the Persian Government had been in favour of getting an oil settlement quickly before resuming diplomatic relations but they had received advice from various quarters that it might take some time to negotiate an oil settlement and that therefore it would be better to resume diplomatic relation first. They were now undecided about this but they wished to know first what Her Majesty's Government's views were and they would apparently like to fall in with them. They were however rather uncertain about how exactly diplomatic relations could be resumed with the minimum loss of face to themselves, since they fully realised that it was the Persians who had broken off relations and they were rather afraid that we should insist upon the first move coming from the Persian side now.

The message added that, while the Persians were grateful for the \$45 million supplied by the Americans, they realised that this would not keep them going for very long and that they would have to look to the sale of oil to provide them with revenue which they very badly needed.

R. ALLEN.

No. 72

CONSIDERATIONS ON AN INTERIM SETTLEMENT

Foreign Office to Sir R. Makins (Washington)

(No. 3910. Confidential)
(Telegraphic)

Your telegram No. 2067 [of September 30].

practicability of a long-term settlement at this stage. We would naturally prefer the latter. We presume that the reason for considering an interim settlement is doubt regarding the and consider that our first objective should be to see whether it is practicable.

2. The following however are our preliminary comments on an interim arrangement as outlined in your telegram under reference and amplified by Butler:

- (a) We should attach the greatest importance to the Bank's operating specifically as the trustee for both parties to the dispute.
- (b) While A.I.O.C. would grant a waiver in respect of claims on oil sold by the Bank, they could not contemplate giving a waiver to anyone else; all oil must be sold by the Bank in the first instance.
- (c) While appreciating Hoover's desire to postpone any argument about "compensation" in the hope that a satisfactory long-term partnership arrangement can be worked out, we feel that to protect A.I.O.C.'s position adequately in case it should after all prove impossible to work out a satisfactory long-term settlement during the currency of the interim arrangement, it is essential that some part of the proceeds of sales made by the Bank should be set aside (in escrow or under some other name) as a necessary corollary to the waiver at (b) above. This also seems very important from the point of view of the effect on Persia's neighbours.
- (d) If the Bank is to employ consulting engineers to operate the industry, we should expect, particularly having regard to recent Persian statements, that British firms could be associated with any United States or international firms. Apart from considerations of prestige, it is important to ensure that expenditure on rehabilitation and operation should be as far as possible in the sterling area rather than elsewhere.
- (e) Since costs in the revived industry (particularly with the present labour position at Abadan) are uncertain, we doubt whether Persia could be given a return per barrel comparable with what neighbouring countries are receiving (say 80 cents) without giving them more than 50 per cent. of the net profits likely to be realised in Persian operations.

3. We have also to consider the political and economic effects of the size of A.I.O.C.'s participation in any arrangement made. In considering long term solutions based on a consortium, A.I.O.C. have always assumed that they handle at least 50 per cent. of oil produced. This does not necessarily mean that A.I.O.C. would not be prepared to consider something different but this cannot be considered in isolation from the other terms of any arrangement made.

4. All in all, therefore, there are many important conditions and provisions to thrash out. For this reason we have asked that Hoover in his talks with the Persians should confine himself to the matters listed in paragraph 4 of my telegram No. 3872 and we feel it desirable that we should have an opportunity of discussing the whole position with him as soon as possible. No doubt in any further talks he may have with the Bank and the United States oil industry he will bear the foregoing in mind.

5. Your telegram No. 2140 has just arrived but we do not want to delay these comments while we consider it.

No. 73

REPORT BY THE SWISS MINISTER OF A MESSAGE FROM THE SHAH

(No. 232. Confidential)
(Telegraphic)

Swiss Legation have given us the substance of an oral message received by their Minister at Tehran from the Shah, asking him to find out whether we should be in favour of resuming diplomatic relations before beginning oil negotiations.

2. Following is text of aide-mémoire handed to Swiss Minister by Sir W. Strang today (October 9).

Her Majesty's Principal Secretary of State for Foreign Affairs will be grateful if the following personal message from him could be transmitted to the Swiss Minister at Tehran:—

Message begins. "I was very glad to receive the message from the Shah which you recently transmitted to me through your Government."

Foreign Office,
October 9, 1953.

We certainly do not want the present estrangement between two old friends to go on any longer. In my view the best way to begin a new phase is for us to resume diplomatic relations as soon as possible. Her Majesty's Government are very ready to do this; and I am sure that everything will be easier when we are in direct touch.

I would suggest that we need not stand too much on ceremony over formalities. It would, I think, suffice if simultaneous announcements were made in Tehran and London to the effect that both Governments, being desirous of re-establishing diplomatic relations, had agreed to exchange Ambassadors. I should be grateful if you would ascertain whether the Persian Government agree".

2. Should the Persian Government indicate their approval of the procedure suggested above, the full wording and timing of the simultaneous announcements would be concerted through the Swiss Government and their Minister at Tehran. Meanwhile however it may be helpful to the Swiss Minister to know that Her Majesty's Government would propose, on the resumption of relations with Persia, to send to Tehran the Counsellor of Embassy, with a small staff, in anticipation of the arrival of the Ambassador. The despatch to Tehran of the Counsellor could be effected within a week or two of the Persian Government's indicating their approval to the course proposed.

3. [To Washington only.]

You may inform State Department.

We are telling the United States Embassy here of this and of my message to Entezam (my telegram No. 927 to UKDEL New York).

3. [To New York only.]

This I hope will serve as the brief promised in my telegram No. 937 [October 8].

EP 1051/27

No. 74

RESUMPTION OF DIPLOMATIC RELATIONS WITH PERSIA

Foreign Office,
October 13, 1953.

(Confidential)

Mr. Houghton of the United States Embassy to-day gave me the following account of talks which Mr. Henderson, United States Ambassador in Tehran, had had with members of the Persian Government on this subject.

2. Learning that General Zahedi was to lunch with the Shah on October 7, Mr. Henderson saw General Zahedi himself, the Minister for Foreign Affairs and Mr. Ala, the Minister of Court and discussed this subject with them.

3. Mr. Henderson told General Zahedi that he knew that the Shah and his Prime Minister thought that the resumption of diplomatic relations should be simultaneous with the settlement of the oil question but he himself was fully convinced that relations should be resumed as soon as possible and that they should not be linked with an oil settlement. Such a resumption would be considered strengthen Persia's position internationally and also internally, since there were influential groups of pro-Western people who would not give the new Government their full confidence and support until it was in relations with Her Majesty's Government. If General Zahedi did not soon resume relations with the United Kingdom his Government would lose some sympathy in the United Kingdom and in the United States. Finally, Mr. Henderson pointed out there was no logical connection between diplomatic relations and an oil settlement. He had told General Zahedi that as Persia had broken diplomatic relations with Britain it was for her to resume.

4. General Zahedi replied that he was unprepared to resume diplomatic relations before an oil settlement had been reached or, at least, concrete steps had been taken in that direction. He feared that the British Embassy when re-established without an oil settlement, would be a target for Nationalist attacks which would impair relations between Persia and the United Kingdom. His Government would also appear to be a puppet of the United States and the United Kingdom Governments. He entirely agreed that Persian public opinion would need to be prepared before it could accept a resumption of relations, but he did not think this preparation would be difficult or need take much time.

5. The Minister for Foreign Affairs thought it would be suicidal to resume diplomatic relations at this moment and said that the Prime Minister and the Shah were convinced that they should not be resumed until at least some principles for a settlement had been agreed, either in private unofficial conversations or by the use of mediation.

6. Mr. Ala, the Minister of Court doubted whether the Shah would think it wise to resume diplomatic relations before an oil settlement.

C. T. GANDY.

EP 15316/53

No. 75

MR. HOOVER'S VISIT TO PERSIA*Mr. Penfield (United States Embassy) to Mr. Eden*

(Confidential)

Sir,

The Secretary of State has asked me to transmit the following message to you:

"Thank you for your message of October 7 and particularly your kind words about Loy Henderson. It is pleasant to know you share our view that he has shown remarkable skill in handling a very complicated problem.

"It seems there may be an opportunity now to move forward rapidly in Iran and I consider the views put forward in your message most helpful. Hoover, who will soon be in Iran, will bring you a first-hand report on the situation there, probably within another two weeks. I do appreciate your agreement that he go directly to Tehran. I know that he will have some interesting news to report upon Iranian attitudes and their understanding of the problems involved in putting Iranian oil back on the world market.

"We thoroughly understand your feelings about the desirability of early re-establishment of diplomatic relations and your hope that full advantage will be taken of whatever opportunities may arise to push for the final settlement of the long-standing oil dispute. Hoover understands that the question of an interim settlement is to be discussed only under general terms and only if there seems to be no chance in the present atmosphere of pressing for an early and complete settlement of the issues in the dispute."

Yours, &c.
JAMES PENFIELD.

No. 76

MR. EDEN'S MESSAGE TO THE PERSIAN GOVERNMENT

(1)

Mr. Eden to Sir P. Scrivener (Berne)(No. 256. Confidential)
(Telegraphic)

My telegram No. 232 [October 9].

My immediately following telegram contains text of passage about Persia in my speech in the House of Commons yesterday, October 20.

2. I am not sure how accurately this will be reported in Persia. Please therefore move the Swiss Government to instruct their Minister at Tehran to bring the text urgently to the attention of the Shah and General Zahedi. I mention them in particular since there are indications that the present Persian Foreign Minister has a strong personal bias against my proposal to resume diplomatic relations forthwith, and would prefer oil talks first. For that reason I am anxious that the message in my telegram under reference should also be given to the Shah and Zahedi if this has not already been done.

(2)

(No. 257)
(Telegraphic)

"I hope that a new chapter has opened in Persia. There is a new Government there, and to them, and to the Persian people, Her Majesty's Government wish sincerely to extend once more the hand of friendship. The Persian Government are aware that we are ready to resume diplomatic relations; if this can be done it will then be easier for us to discuss together the complex problem of Persian oil. I should like to say that the United States Government are working very closely with us in these matters".

EP 1051/33

No. 77

SHAH'S EARNEST DESIRE TO RE-ESTABLISH NORMAL RELATIONS WITH THE UNITED KINGDOM*Aide-mémoire Communicated to Sir W. Strang by Swiss Minister on October 23, 1953*

(Confidential)

M. Escher, the Swiss Minister in Tehran, saw M. Entezam, the Iranian Foreign Minister on October 11th and the Shah on October 14th. M. Escher underlined the very friendly tone of Mr. Eden's message. Both M. Entezam as well as the Shah assured him that the Persian Government, too, had a friendly attitude and wishes urgently to re-establish its normal relation with Her Majesty's Government and to settle once and for all the oil dispute. Both stressed the fact that they had to have regard for public opinion and would have to proceed with the utmost caution. M. Escher then referred to recent articles in the British Press which showed great comprehension of the Persian problem. M. Entezam replied that his Government too had intimated to the Persian Press the desirability of a general toning down of their comments. The various editors seemed to share the Government's view but felt it might be dangerous to alter the course too rapidly.

It is fear of public opinion which makes the Shah hesitate to re-establish diplomatic relations without first solving the petrol problem, or without having at least made the first contacts and held some discussions on that subject. The Shah as well as M. Entezam wish to review once more the whole situation with the Head of the Government before giving a definite answer. The Shah left on October 15th for a few days rest at Isfahan and M. Escher therefore doubts whether a reply could be received before the end of this week or the beginning of next.

EP 15316/61

No. 78

SUBSTANCE OF DOCUMENT WHICH MR. HOOVER AND MR. HENDERSON DISCUSSED WITH THE IRANIAN PRIME MINISTER AND FOREIGN MINISTER IN TEHRAN ON OCTOBER 21, 1953*(Communicated by Her Majesty's Embassy, Washington)*

*Washington,
October 28, 1953.*

(Confidential)

The situation regarding supply and demand for Middle East oil

There is at present a substantial surplus of oil in the Middle East without taking Iranian oil into consideration, and there will be for many years. In fact, any of the other three Middle Eastern countries producing oil in substantial quantities, namely, Saudi Arabia, Kuwait and Iraq, has sufficient proven oil reserves to be able to take care of any foreseeable demand for Middle Eastern oil entirely by itself. Saudi Arabia alone has proven reserves and potential production now capable of supplying more than 3 million barrels per day or approximately 150 million tons per year as against present world demands for Middle East oil of 2,400,000 barrels per day or approximately 125 million tons a year.

2. *United States markets for Iranian oil.* There has been a great deal of discussion about shipping large quantities of oil to the United States. Exports to the United States will be small, if any, during next several years. As in all other parts of the world, over-supply situation exists there and production has been cut back to keep it in line with demand. Most of the proposals to purchase Iranian oil for shipment to the United States are based on the hope of obtaining a price sufficiently below its fair market value to make it profitable in competition with domestic supply. Any appreciable volume of exports, however, would probably result in an increase in import duties and the operation would no longer be a profitable one. Large and steady volume of oil from Iran to the United States within the near future is not probable. Eventually, as domestic supply in the United States is no longer able to meet the demand, an appreciable market for Iranian oil can be developed gradually. In such a situation, larger distribution companies in America would be the most stable and logical outlet.

3. *Eastern hemisphere market for Iranian oil.* The major part of crude oil and its products is distributed by private commercial companies rather than by governmental entities. It would be safe to say that 90 per cent. of the oil in the world, including Middle East oil, is distributed in this way. Iran must use these same channels if it is to dispose of any

appreciable quantity of oil. There are seven major international companies who are at present engaged in distributing Middle East oil. Their marketing organisations have been built up over a period of many years and extend to almost every part of the world. There are a few lesser companies who also distribute a minor amount of oil but they do not have large outlets available nor are they of appreciable size. It seems necessary than Iran consume some form of agreement with one of the major marketing companies or with an entity which would include one or more of those companies. If an appreciable amount of Iranian oil is to flow to market, the possibility of developing fresh distribution channels of importance outside those afforded by larger companies does not exist for the following reasons:

- (a) Those few Governments in the world which are endeavouring to operate their own distribution and refining systems offer an extremely limited outlet for Iranian oil;
- (b) New private companies entering international oil distribution business would be at a great disadvantage in competing in the present world situation with those companies which are already well-established.

It is estimated that the sum of these channels could not purchase as much as 5 million tons per year of Iranian oil. In many cases, particularly in dealings with foreign Governments, income to Iran would have to be received on a barter basis which would offer obvious disadvantages. Furthermore, sales to a number of small private companies or to foreign Governments would not be of a character which would guarantee a steady flow of oil. Under such conditions it would not be possible to operate wells or refineries in an effective, continuous or economic manner. If distribution can be obtained through major companies, however, a volume of from 20-40 million tons annually may be achieved within approximately three years after resuming operations.

4. *World refining of Middle Eastern oil.* About 75 per cent. of all Middle Eastern oil flows to Europe and the major part of the other 25 per cent. goes to Africa, South Asia, the Far East, and the South Pacific. The trend in recent years has been towards refineries located close to consumption rather than at the source of production. Governments have forced this re-location of refineries in many cases either by direct legislation or by means of tariff differentials. In 1945, 85 per cent. of all the oil refined in the Eastern Hemisphere was processed in the Middle East and by 1953 this volume had declined to 19 per cent. of the total. European refineries in 1945 processed only 6 per cent. of this total and by 1953 their proportion had risen to 63 per cent. Large additional refining capacity is now under construction in Europe, South Asia and the South Pacific. In every case these refineries are close to their consuming markets. The demand for Middle Eastern oil products may be expected gradually to decline whereas that for crude oil will unquestionably increase. These trends are the result of economic and political forces entirely beyond the control of either the distributing companies or the Government of Iran. Regardless of the kind of settlement achieved, the income to be derived by Iran from refinery operations is almost sure to decrease as more refineries are built in consuming countries.

5. *Relative incomes to oil producing countries of the Middle East.* The existing net income in the form of royalties and taxes received by various Middle Eastern countries is approximately 70 to 80 cents per barrel or \$4.90 to \$5.60 per ton. Saudi Arabia will receive a net income in excess of \$200 million in 1953. Kuwait and Iraq will receive proportional amounts depending on their actual production.

6. *Income to Iran.* It is difficult to see how on a barrel basis, the income to Iran could be greater than the highest received by other substantial producing countries in the Middle East. Iranian oil must compete commercially with other Middle Eastern oil. No distributing company capable of handling substantial quantities of Iranian oil could afford to pay Iran more for its oil than the cost to it of oil received from other Middle Eastern countries. With a volume of 20-40 million tons annually, the net income from Iran should be from a \$100 to \$200 million each year and as markets increase from year to year, income should grow proportionately.

7. *Present situation of major international distributing companies operating in the Middle East.* All of the major international distributing companies at present have ample sources of crude oil in the Middle East. These companies have made heavy capital expenditures in those countries and relations with the respective Governments appear to be cordial and reflect mutual confidence. In every instance, the companies are allowed to manage and supervise producing and refining operations in which they are engaged and are thus able to assure themselves of efficient and steady sources of supply for constantly shifting markets and maintain their technical standards of quality. It is with respect to this general aspect of the problem involving as it does the national honour and integrity of Iran on the one hand and practical, economic and operating factors of the oil industry on the other that the difficulties of solution must be recognised. In this instance it is especially true as enormous amounts of capital will be required to place Iran's oil industry into operation again and possibly to make substantial initial financial advances to the Government. The companies will hesitate to accept these obligations without corresponding responsibility for the technical conducting of operation.

**AIDE-MÉMOIRE HANDED TO MR. EDEN BY THE SWISS MINISTER
ON OCTOBER 30**

Message de M. Escher à Mr. Eden, Secrétaire d'Etat de Sa Majesté pour les Affaires Etrangères

(texte approuvé en tous points par le Général Zahedi)

Le Président du Conseil vous remercie sincèrement du message transmis par mes soins le 11 octobre, et dont il apprécie la teneur amicale. Il est également désireux de voir les relations diplomatiques rétablies le plus vite possible, et approuve en principe votre suggestion de publier simultanément un communiqué à cet effet. Pour des raisons que vous comprendrez, il estime cependant que ce communiqué ne pourra être publié qu'au moment où une base d'entente sur la solution du problème du pétrole aura été trouvée, ou à tout le moins au moment où une première prise de contact prometteur aura été établie. Afin d'atteindre ce but, le Général Zahedi croit opportun que vous envoyiez à Téhéran un expert autorisé de parler au nom du Gouvernement britannique et de l'Anglo-Iranian, lequel s'efforcerait avec les autorités iraniennes de trouver une base d'entente. Pour garder le secret, cet expert pourrait se faire passer pour journaliste. Si cette proposition ne convenait pas, le Chef du gouvernement vous prie de lui faire une autre suggestion tendant à engager rapidement des pourparlers directs au sujet du problème du pétrole.

**REPLY FROM GENERAL ZAHEDI TO THE MESSAGE FROM THE
SECRETARY OF STATE**

Mr. Eden to Sir R. Makins (Washington)

(No. 4450. Secret)
(Telegraphic)

*Foreign Office,
October 31, 1953.*

General Zahedi has now sent me a reply, through the Swiss, to my recent message. It states that the Persian Government wish to renew relations with the United Kingdom, but feel that it would not be opportune to do so until some basis has been found for discussion of the oil concession or at least there has been some fruitful contact. They therefore propose that we should send in disguise to Tehran an expert to begin discussions with a view to discovering a basis for negotiation. If however this idea is not acceptable, General Zahedi would be glad to hear any other suggestions I may wish to make.

2. I do not believe that General Zahedi's idea would prove at all satisfactory. We have yet to find a mutually satisfactory basis for negotiating on oil, and to adopt Zahedi's proposal would probably prolong indefinitely the present interruption in relations without leading to any very useful oil negotiations. I remain convinced that from all points of view it is preferable to resume relations as soon as possible.

3. I am considering how we might help General Zahedi to bring this about, and perhaps Mr. Hoover may be able to give us some ideas when he gets back. Meanwhile, I am sending an interim reply to Zahedi.

4. Please give the gist of this to Dulles, and say that in my view it would be most helpful if he could at once ask Henderson to make it clear to the Persian Government that the United States Government support my policy of resuming relations forthwith. It would also be helpful if the Americans were to make it clear publicly that this is their attitude. I am very grateful to Hoover for what he has already said to the Persians on the subject.

5. At the same time, please ask whether the State Department have any indication of the reason why Hoover has delayed his departure from Tehran, apparently at Persian request.

No. 81

PROGRESS OF MR. HOOVER'S MISSION TO PERSIA

Sir R. Makins to Mr. Eden. (Received November 4)(No. 2369)
(Telegraphic)

Following is relevant portion of Mr. Dulles' Press conference today:

Question: Mr. Secretary, can you say anything about the progress of Mr. Hoover's mission to Iran?

Mr. Dulles: He has had some good talks. He did not go over there empowered to negotiate. It was purely exploratory and it has been satisfactory in the sense that he now has a very intimate understanding of the situation based on talks with the leaders of the Iranian Government. (Interruption). I just want to add—I did not quite finish what I was saying about Iran—I wanted to take note of the fact that while Mr. Hoover has been there these last few days there has been a gratifying evidence of renewed friendliness between the Government of the United Kingdom and the Government of Iran, and we hope very much that will lead to a resumption of diplomatic relations and of friendly relations between the two Governments.

Question: Mr. Secretary, do you believe that resumption of those relations should be a condition of the opening of talks on the oil problem?

Mr. Dulles: I would not want to say that it should be a condition. I have no doubt the talks would be resumed with a better chance of success if there is a friendly and direct intercourse.

EP 1534/114

No. 82

DISCUSSION WITH MR. HOOVER: MINUTES OF A MEETING HELD AT THE FOREIGN OFFICE ON NOVEMBER 4, 1953

Sir P. Dixon welcomed Mr. Hoover and thanked him for the way in which he had handled the Persian Government in his recent visit. He said that the Committee had kept their minds open about the possibilities of an oil settlement until they had been able to hear what Mr. Hoover had to say. On the situation as a whole Her Majesty's Government wanted diplomatic relations to be re-established quickly, and were convinced that this was the right way to set about a solution of the Persian oil problem. He was sure Sir William Fraser would endorse this view. When diplomatic relations were re-established, direct negotiations could begin. Mr. Dulles had now expressed a similar view about the importance of re-establishing relations. He asked Mr. Hoover to give the Committee his appreciation of the present situation in Persia.

Mr. Hoover said that the thinking of the Persian Government about a solution of the oil problem was thoroughly confused. His instructions had been to carry on no negotiations and this had meant that he and the Persian Government had been able to exchange ideas without any commitment on either side. The Persian Government had no coherent thoughts about the problem, and they were afraid of public opinion. It would thus be difficult for some time yet to start useful negotiations. There was, however, one reassuring thing. General Zahedi had delegated to Mr. Entezam the Foreign Minister the responsibility for oil. Mr. Entezam was intelligent and courageous and was quickly grasping the main factors of the problem: General Zahedi leaned more on him than on any other Minister. Mr. Hoover's impression was that General Zahedi was a man who preferred soldiering to politics but he was now a prisoner of his environment. The Shah's relations with General Zahedi were strained: he had a deeply suspicious nature: he was in constant touch with members of the opposition. Mr. Hoover thought that if difficulties arose in negotiations with the Persians they would arise from the Shah rather than from his Government. Mr. Henderson had bluntly and repeatedly told both the Shah and General Zahedi that diplomatic relations with the United Kingdom should be immediately resumed so that a start could be made on working out a solution to the oil problem.

Mr. Hoover said that in the past year the Communists on the one side and Dr. Musaddiq's party on the other had focussed their tactics on one point—the Persians dislike of the A.I.O.C. This was a basic factor which must not be overlooked and indictment of Her Majesty's Government had been linked with indictment of the A.I.O.C. Mr. Henderson had told the Persian Government that they must distinguish between the British Government and the A.I.O.C. This might help towards establishing diplomatic relations but there was no prospect for a long time to come of removing the dislike of the A.I.O.C. from the public mind. Mr. Hoover said that Dr. Musaddiq had completely misled the Persian people about the facts of the world oil situation and had persuaded them that the world must come on their knees for Persian oil. He had done his best to explain the true facts of the world oil situation and General Zahedi had admitted that the Persians had been misled. The Persian Government had

Washington,
November 3, 1953.

not yet been able to give attention to bringing public opinion round to a settlement, but Mr. Henderson had offered them the help of the United States Embassy in this and they had been given charts bearing production of oil in Middle East countries in 1945 and 1953 and other charts which showed the changes in refining operations and these charts had been passed on to the newspapers. Press reports showed that the general press reaction was that the facts they revealed should compel the authorities to find a solution to the oil problem.

Mr. Hoover said that he had asked the Persians if there were any principles for a settlement which they could accept and which Her Majesty's Government could examine. He had been given an unsigned document the existence of which should be kept secret. This document which he circulated to the Meeting first indicated the A.I.O.C. in the usual way which was politically necessary in case it became public in Persia. Several different points of view had had to be reconciled and the confused result showed the confusion in the minds of the Persians. The document proposed that the N.I.O.C. should manage the industry with an international consortium (in which A.I.O.C. could have a minority interest) buying and marketing oil: the consortium should advance capital for the restoration of the industry: no compensation would be paid by the Persians but the A.I.O.C. could make their own arrangements for compensation with the other members of the consortium: the World Bank was to act as intermediary in concluding the agreement and to supervise its enforcements: Persia was to get as much for her oil as other producing countries got. As it stood the document could not be considered to be the basic for a settlement. But Mr. Hoover said that he thought, if largely re-written, it could serve as a basis for negotiation.

In a telegram sent subsequently, Mr. Henderson had reported the views of the Persian Government as follows:—

- (i) If the United Kingdom could accept the Persian document as a basis for negotiation, the way would be clear for negotiations.
- (ii) A statement accepting the principles of this document should be worked out, and diplomatic relations resumed simultaneously.
- (iii) The major United States and United Kingdom oil companies should negotiate amongst themselves to form a consortium and indemnify A.I.O.C.
- (iv) The International Bank should act as a screen between the N.I.O.C. and the consortium.

Sir P. Dixon said that the immediate proposals of the Persians seemed to amount to an unofficial offer to resume diplomatic relations when the main principles of an oil settlement were agreed. But we wanted to restore diplomatic relations before there was any discussion of an oil settlement.

Mr. Hoover thought that it might be sufficient to make a statement of simple principles, covering in a very general and non-committal way the points in the Persian document and leaving all the main issues for later negotiation; it could be on the lines of the statement made in March 1953 by the Foreign Secretary and the United States Secretary of State.

In discussion it was said that the United Kingdom must not, in taking the first step, lose sight of our ultimate objective. We wanted to restore relations and then try to secure the return of the A.I.O.C. to Persia. We would find ourselves in an ambiguous position later on if we used a formula which the Persians thought was intended to cover the proposals in their document, and we then had to say that the formula meant something else. We should at least wish to make it plain that any statement we made did not imply that we accepted or even took official notice of the document.

Sir William Fraser said that the A.I.O.C. would be glad to discuss with Mr. Hoover any detailed matters in connection with a settlement. There was nothing new about the indictment of the A.I.O.C. in the Persian Government's document. These charges had been made before and had never been substantiated. Major principles were at stake and we ought to be very careful in anything we said to the Persians at this stage when we were trying to re-establish diplomatic relations. The position of the A.I.O.C. and of other companies in the whole of the Middle East would be affected if A.I.O.C. were excluded from Persia and if Persia's claim, that she should not pay compensation, were accepted. He hoped that, without any commitment on the nature of an oil settlement, diplomatic relations could be resumed so that the whole situation could be discussed between Her Majesty's Government and the Persian Government. Before there were any talks, except on the basis of the A.I.O.C. going back, the A.I.O.C. and their shareholders would want to have complete first-hand information on the situation in Persia. Mr. Hoover said he fully appreciated the views of the A.I.O.C. But the Persians at present considered, as their first principle, that the A.I.O.C. should not control the oil industry, though they might have a minority interest in the consortium proposed in their document. It was very doubtful whether they could be persuaded to abandon this principle, and this was one of the facts of the situation with which we had to deal.

In reply to questions about the Persian proposals Mr. Hoover made the following points:—

- (a) The Persian Government were not giving further thought to the February proposals. He had told them that the world oil situation had changed since then and that in any event these proposals had been framed to meet Dr. Musaddiq's peculiar approach to the oil problem and not to accord with the world oil situation.

(b) The Persian Government might come to accept foreign management of the oil industry, to which there was no reference in their document. This would certainly be a major issue in negotiations. Nationalisation was a slogan in Persia but the Persian public would accept what they were told was in accordance with the nationalisation law. Within the loose framework of that law there could be many kinds of arrangements for management and the A.I.O.C. could technically own the industry, with a group of foreign companies operating it.

(c) It was difficult to judge whether the Persian proposal that any compensation to be paid to the A.I.O.C. should be paid by the consortium of purchasing companies and that the Persians should be paid as much for their oil as other oil-producing countries should be taken seriously. Mr. Hoover was not suggesting that Her Majesty's Government should change their policy on compensation but the question would have to be looked at in the context of any operating agreement that might be proposed: the extent of participation by the A.I.O.C. and the period of the agreement would be relevant factors. Though the Persian Government had said they would not accept a fifty-fifty profit-sharing agreement, they might accept what would amount to the same sum, expressed as a number of cents per barrel; they were at least not now asking to be paid more than their neighbours. The Committee thought that the problem would be to devise a formula which could be used to persuade the Persians that they were well treated, and their neighbours that nationalisation had not brought Persia higher revenue from oil.

(d) The Persians proposed in their document that the consortium of companies should advance the capital required to restore and operate the industry. Sir William Fraser said that this proposal and the refusal to accept a fifty-fifty profit-sharing agreement would keep the reputable oil companies out of a consortium. Reputable companies would not advance capital without security and abandonment of the fifty-fifty principle would prejudice their interests elsewhere. Would the Persians make an arrangement for a period which would justify the sinking of capital? Mr. Hoover said the Persians thought that the oil companies would be anxious to play the part proposed for them, but he had explained that the companies would be found to be reluctant to advance capital when the Persians came to negotiate with them.

(e) There had been no discussion with the Persian Government about the particular companies, whether American or British, which might take part in the consortium.

Mr. Hoover said that the Persians had thought that Her Majesty's Government would require agreement on principles of a settlement to accompany resumption of relations. They had put forward their document before he had been able to suggest that the first step was to restore diplomatic relations and that Her Majesty's Government would doubtless then be willing to discuss an oil settlement when the Persians were ready. He cou'd not say whether the Persians would in fact be willing to postpone oil talks.

Discussion showed that it would be acceptable to Her Majesty's Government and to the A.I.O.C. to put off oil talks, after diplomatic relations were resumed, until the Persians were ready for them. The aim should be to restore diplomatic relations by means of a suitable expression of goodwill without committing the Persians to bargain or Her Majesty's Government to anything which would prejudice negotiations, and then seek by direct approach with the Persian Government to prepare them for a satisfactory settlement, allowing time for the education of the Persian people.

Mr. Hoover said it would certainly be advantageous for Her Majesty's Government to be able to approach the Persian Government direct. The Swiss Minister was an unsatisfactory intermediary. It was difficult to assess how much time would be needed to educate the Persians or how far time was on the side of Her Majesty's Government. A start had been made by the publication of the charts to which he had referred and the Persian press had said that the facts they showed would compel the authorities to find a solution to the oil problem. The present allocation of American aid would end on 31st March, 1954, and as that time approached the Persians would become anxious to get an oil settlement. The period before the aid ended would be the time to drive a bargain, but the settlement must be permanent. It would be dangerous to make an interim settlement, but if a permanent settlement had not been made when American aid had stopped it would be best to keep the Persians going from month to month.

COMMUNIQUÉ ISSUED BY THE PERSIAN MINISTER FOR FOREIGN AFFAIRS ON OCTOBER 31

(Communicated to the Foreign Office by the Swiss Minister on November 10)

As you have no doubt noticed, the speech which Mr. Eden the British Foreign Secretary made on October 20 in the House of Commons, contained a passage referring to Iran in terms of sincere friendship. The fact that Mr. Eden particularly requested the Swiss Minister to present the text of this speech personally to the Prime Minister indicates, in my opinion, that Mr. Eden desires to confirm the importance to be given to the tone of his speech.

2. The statements and sentiments expressed by Mr. Eden give us cause for appreciation and pleasure. In view of the fact that the existing dispute is between the Iranian Government and the former oil company, the Government wishes to assume that there is no insuperable estrangement between the two peoples and their Governments.

3. Meanwhile you are of course aware that Mr. Eden had previously stated that the British should reconsider their policy towards Iran. The Iranian Government hope that Mr. Eden's recent statement is a sign of a new policy and a preamble to a new chapter in friendly relations between the two countries.

4. As the Prime Minister has already stated the only expectation of the Iranian Government is that in the settlement of the oil dispute the relevant laws of Iran shall be respected and that the principles of Iran's prestige and national honour, and those of justice and equity should be observed.

5. It is presumed that as soon as the preliminary conditions have been met, there will be no difficulty in re-establishing diplomatic relations between the two countries and we hope that these relations will be based on reciprocal respect and sincere co-operation.

MESSAGE FROM MR. HOOVER TO THE UNITED STATES AMBASSADOR IN TEHRAN

Foreign Office to Sir R. Makins (Washington)

(No. 3814. Saving. Confidential)
(Telegraphic)

*Foreign Office,
November 10, 1953.*

My telegram No. 4619 (of November 7).

As a result of our discussions with Hoover on resumption of diplomatic relations, he undertook to telegraph to United States Ambassador in Tehran on the following lines:—

(a) Hoover had thought it better not to leave with me the Persian document setting out their preliminary views on the principles of an oil settlement (paragraph 3 (b) of my telegram under reference). I had said that I was very glad to hear that the Persians had taken the initiative but there was much in the Persian memorandum which it would not be possible to accept. It seemed to me that discussion of this complicated problem was bound to take much time and the establishment of mutually acceptable principles, as a preliminary to discussions on details, was frequently the most difficult part of any negotiation. I was however sure that with goodwill a satisfactory solution could be found but direct contact was necessary to achieve this.

(b) We were now proposing to make a further communication to the Persian Government repeating our belief that diplomatic relations should be resumed without delay, and stating in very general terms our hope that, when the Persians wished to begin oil negotiations, it should be possible to reach a settlement on the basis of justice and equity. Hoover agreed with our policy of trying to get diplomatic relations first.

2. Officials then discussed the form which an oil settlement might take. The following points were dealt with:—

(a) The attitude of Her Majesty's Government was that the question of compensation could be put aside only if settlement were made direct between the Persians and A.I.O.C. This was essential also from the point of view of the prestige of British Companies in other parts of the Middle East, and of the security of foreign companies of all kinds in those countries. Hoover on the other hand gave it as his firm opinion that the Persians would not negotiate with Anglo-Iranian, and that they would not be willing to make an agreement with the Company only. (See also paragraph 6 below.)

(b) Hoover's suggestion, to overcome this, was that a consortium should be formed of British, American and perhaps other oil companies, the members of which would buy a proportion of A.I.O.C.'s rights in Persia. He did not think that the Persians would accept more than 25 per cent. participation by A.I.O.C., or more than a total of 50 per cent. participation by British Companies. He said that it would be desirable to limit the American membership to the major American Companies with interests in the Middle East. For internal United States' reasons, however, and particularly because of the Anti-Trust Laws, he thought it would be necessary for the arrangement to be open to other American domestic Companies to join if they wished and could afford to do so.

(c) *Management*: Hoover's view was that the Persians could eventually be brought to accept the necessity for foreign management of the industry, i.e., management by the consortium; there would be no difficulty, he thought, in reconciling such an arrangement with the Persian Nine-Point Nationalisation Law.

(d) *International Bank*: It was agreed that, on the hypothesis that Hoover was right in excluding the possibility that A.I.O.C. could return alone, there might be many advantages in participation by the International Bank in the settlement. Hoover's idea was that the Bank might make two parallel contracts (i) with the Persians, and (ii) with the consortium. The contract with the Persians would enable the Bank to operate the industry or to arrange for its operation by an agent. The contract with the consortium would appoint the latter as the Bank's agent to operate the industry and market the oil. We did not discuss this in detail with Hoover.

3. It was agreed that, at first sight, participation by the Bank might have the following advantages :—

- (i) The Bank would be in a position to ensure that revenue from oil went to the Persian Exchequer rather than into the pockets of individual members of N.I.O.C.
- (ii) It would perhaps be more difficult for a future Persian Government to break a contract with the International Bank than one with a purely commercial organisation.
- (iii) While the agreement could not be in any part secret, it would be easier for the Persian Government to sell an International Bank solution to the Persian public.
- (iv) The companies participating in a consortium would be more willing to come in because of the security offered by the presence of the Bank.
- (v) It might make it easier to arrange compensation for A.I.O.C.
- (vi) It might make possible a higher British participation than would otherwise be the case (Hoover doubted this).
- (vii) The Persians might allow the Bank greater operating control within the framework of the 9-point Law than they felt they could allow to any foreign consortium.
- (viii) The Persians would feel that the International Bank would see fair play and audit receipts; and the Bank representative in Tehran, who should be a man of the highest calibre, could act as an unofficial arbitrator between the Persians and the consortium.
- (ix) It might help us with other Middle East oil countries. We do not want them to think that they can, at will, expel one foreign company and replace it with a consortium of their own choosing. They might not be so keen on bringing in the International Bank; but if the pressure of nationalisation became irresistible in those countries, it might be preferable that the International Bank should be brought in than that all the foreigners should be expelled.
- (x) Participation by the Bank in the oil settlement might lead to other Bank activities in Persia, and loans to Persia for capital development; this, since Persia's economic welfare is of high importance, would be greatly desirable.
- (xi) It would be much easier for an International Bank Delegation (which would include representatives of the oil industry) to negotiate in Tehran, than for any delegation of foreign companies.
- (xii) The Bank might lend the money for rehabilitation.

4. It was recognised that there might also be disadvantages to International Bank participation, a question which would need to be gone into carefully. It was agreed, however, that Hoover, on his return to Washington, should explore with the International Bank the possibility of their participation, on the clear understanding that such discussions must be absolutely secret and without any commitment. He said that the Persians had also asked him to do this. He also made it clear that he would continue to explore the possibility of a consortium.

5. *Marketing*: Hoover said he had told the Persians that if they worked with the major oil companies they might sell 30 to 40 million tons of oil a year. They had the choice of doing this or of trying to market on their own, in which case they would never sell more than 3 or 4 million tons per annum. He said he did not think the Persians were interested in marketing oil outside Persia, and that General Zahedi had refused to sanction deals with private American, Italian and Japanese merchants. The Persian attitude was that there was a market for Middle East oil of approximately 120 million tons a year, and that they were entitled to a quarter share of this (the other quarters being sold by Saudi Arabia, Kuwait and Iraq, who at present were supplying the whole market).

6. Representatives of the Anglo-Iranian Oil Company were present at the first and last meetings with Hoover. At the first meeting, their Chairman stood firmly on the principle that A.I.O.C. had a right to their business in Persia, and that any settlement must be between A.I.O.C. and the Persians, who must recognise A.I.O.C.'s rights in full. Only if A.I.O.C. could satisfy themselves, on the basis of direct observation by British representatives, that the Persians would not make a settlement with them alone, would they be willing to consider a consortium; and in that event they would expect to issue the invitations. Hoover subsequently had private discussions with the Company, from which it is hoped he may have gained the impression that they are not really so inflexible as their opening position would suggest. Indeed, Sir William Fraser suggested to him that in many respects the Persians might find A.I.O.C. less rigid than a consortium of major oil companies.

7. At a final meeting on the afternoon of November 8, Hoover stated that, ideally, both the United States Government and the United States oil industry would like to see a return of Anglo-Iranian to Persia; but he did not consider this possible. He thought it important, however, that the British should have an opportunity to assess the situation themselves, i.e., by observation on the spot after re-establishment of relations.

8. It was agreed that the attempt to re-establish diplomatic relations without prior commitment on oil should be pursued; that any other discussions which Hoover might have should be without commitment; and that they should be so designed as not to prejudice a resumption of relations. Hoover said, however, that he thought that his fact-finding mission was now completed and he wished to be free to move about to London or Tehran without attracting comment either from Her Majesty's Government or from the Press.

EP 1051/58

No. 85

AIDE-MÉMOIRE COMMUNICATED BY UNITED STATES EMBASSY ON NOVEMBER 12, 1953

Summary of Statements by the Persian Foreign Minister

(Confidential)

The following represents a summary by Ambassador Henderson of statements made to him by the Foreign Minister of Persia, Mr. Entezam, during their conversation at noon on November 11: Mr. Entezam asked for this summary and both he and General Zahedi have approved it as an accurate reflection of what might be the necessary move toward the resumption of diplomatic relations.

"Mr. Entezam had been giving much consideration to the question of resuming diplomatic relations and had had several talks with His Imperial Majesty and with the Prime Minister, General Zahedi, during the last two days on this matter. All were agreed upon the desirability of an early resumption of relations but the problem was to find a means of bringing this about without alienating large sections of the Iranian public. In the absence of some indication of an advance toward a settlement of the oil dispute the public would certainly interpret the resumption of relations as a capitulation by Persia to Western pressure. For this reason, the Government decided several weeks ago that an agreement on the principles of an oil settlement should precede or accompany the resumption of relations and had issued a public statement to that effect."

"It would be extremely difficult for the Government of Iran to announce the resumption of relations, especially following the issuance of such a statement, without being able to show at least some progress toward a settlement of the oil question. Mr. Entezam was therefore wondering what Mr. Eden might think of sending an emissary who had the confidence of Her Majesty's Government to Tehran at once for the purpose of discussing this matter with General Zahedi and Mr. Entezam in an informal and frank manner. Given a friendly atmosphere as well as a willingness on each side to understand the other's problem, it might prove possible during the course of such discussions to find a way to resume relations without resultant embarrassment to either Government."

"Mr. Entezam believed that until such time as an agreement had been reached and a joint communiqué prepared, it might be preferable for the despatch of this emissary and the ensuing discussions to be treated as secret. If, however, there should be a leak it could be explained that the emissary had been sent at the Persian Government's suggestion for the purpose of exchanging views regarding the resumption of diplomatic relations between Persia and the United Kingdom. If Mr. Eden should think well of this suggestion, the emissary could be sent immediately without further formalities. On the other hand, if Mr. Eden should prefer, a more formal suggestion along these lines could first be submitted by the Persian Government through the Minister of Switzerland."

RESUMPTION OF DIPLOMATIC RELATIONS*Aide-mémoire (Communicated to Swiss Legation on November 14)*

(Confidential)

Her Majesty's Principal Secretary of State for Foreign Affairs will be grateful if the following message from him could be transmitted to the Persian Prime Minister :—

"Thank you for the message I received through the Swiss Government on the 30th of October, about the resumption of diplomatic relations. I am very glad to know that you share my wish that this should be done as soon as possible. Obviously our countries should be in normal and direct touch. The problem of oil is complex and will require study and time to resolve, and I feel that for us to be in direct touch will help us both. I do not think that any useful contacts can be made except by way of properly accredited representatives.

"I realise, however, that the resumption of diplomatic relations presents difficulties at this time to your Government, and I am considering, in the light of your Foreign Minister's comments as reported by Ambassador Henderson, whether there is anything further I can do to assist you in this respect."

RESUMPTION OF DIPLOMATIC RELATIONS : PERSIAN PROPOSALS*Sir G. Jebb to Mr. Eden. (Received November 16)*(No. 1099. Confidential)
(Telegraphic)New York,
November 16, 1953.

From Minister of State.

Entezam asked to see me yesterday. He said he had been instructed to represent in Washington and to me that Persian Government were unwilling to agree to our proposal for resumption of diplomatic relations before starting oil negotiations. He said he thought it probable that his Government felt they could not announce resumption of relations while Musaddiq's trial was taking place.

2. I pointed out dangers to Persian Government of delaying opening of negotiations and difficulties of negotiating except by direct contact in Tehran. Entezam agreed but wondered whether it would not be possible to agree on some principles as a basis for negotiations which could be announced simultaneously with resumption of relations.

3. In reply to my enquiry Entezam said he supposed Musaddiq's trial could not last much more than another week. I said that if that were so I hoped that immediately it was concluded the Persian Government would grasp the nettle and agree to the resumption of relations. They could always say that it was for mutual convenience to facilitate further negotiations on the oil question.

4. I said that I would report what he had told me to you. He said he expected to make his representation in Washington on November 16 or 17. Full record of conversation by bag.

5. I shall be glad to know what you would like me to say to Entezam. Should I tell him anything of our reactions to what Hoover told us after his visit to Tehran?

**RESUMPTION OF DIPLOMATIC RELATIONS : AIDE-MÉMOIRE
(COMMUNICATED ON NOVEMBER 16, 1953, BY UNITED STATES
EMBASSY)**

(Confidential)

On the 15th November, Ambassador Henderson told the Persian Minister for Foreign Affairs, Mr. Entezam, that he had received word from London indicating that the British did not think it would serve any useful purpose to try to solve such matters as were outstanding between the United Kingdom and Persia except through properly accredited representatives. Mr. Henderson added that his understanding, based on the word he had received, was that the British were studying the comments which Mr. Entezam had made to him with a view to

ascertaining whether there was anything that Her Majesty's Government could appropriately do to make it easier for the Imperial Government of Persia to resume relations immediately, and that the Minister of Switzerland would probably deliver a message from the British Government along these lines in the next day or so. Mr. Entezam commented that he was sorry the suggestion which he had made had not appealed to the British but that he would at once inform the Shah and the Prime Minister, General Zahedi, and would confer with Mr. Henderson again after he had received the British message through the Swiss.

On November 16 the Swiss Minister went to see Ambassador Henderson and stated that he had been instructed to deliver a message to the Persians from the British and that parts of this message referred to certain comments which had been made to Mr. Henderson by Mr. Entezam. In reply to the Swiss Minister's request for information on this point, Mr. Henderson in utmost confidence showed him the summary of Mr. Entezam's remarks which had been forwarded by Mr. Henderson in his Message K. The Swiss Minister was going to try to see Mr. Entezam the same day.

**DISCUSSIONS BETWEEN MR. HOOVER AND THE
INTERNATIONAL BANK***Sir R. Makins to Mr. Eden. (Received November 18)*(No. 2530. Confidential)
(Telegraphic)Washington,
November 17, 1953.

Your telegram No. 4784.

A member of my staff saw Hoover again this morning, and asked how his discussions with the International Bank were going. Hoover said that he had begun by making it clear that he was not at this stage consulting the Bank officially, since this would bring in all the National Executive directors. He was accordingly having informal talks with Black, Garner and Prudhomme. Their initial reaction to his proposals was favourable, and indeed he thought they were privately enthusiastic about the project.

2. An important consideration, which his discussions with the Bank had brought to light, was the necessity of ensuring that the whole of the revenues accruing to Persia under an agreement reached with or through the Bank, should in fact be paid into the National Treasury. He thought the Bank would refuse to deal with the National Iranian Oil Company, particularly in view of the serious allegations of corruption which had been made against it.

3. Hoover thought it was entirely reasonable that you should wish to have direct contact with the Bank on this subject. I have arranged to meet Black myself at the beginning of next week.

4. Hoover asked that you should be informed that he has no plans at present for a second visit to either Tehran or London, but that he can always leave at short notice if there is a useful part for him to play. One idea in his mind is that some advantage might be taken of Nixon's visit to Tehran, which is due on or about December 9. If this seemed feasible, Hoover could arrange to be there at the same time and to brief the Vice-President.

5. Hoover again spoke with considerable sympathy of the position of the A.I.O.C. He said that in his view it was most desirable that the American companies should have direct contact with the A.I.O.C., and in particular with Sir William Fraser, and that he had advised them to initiate discussions on a purely industrial level. He thought that if they adopted this suggestion they would entrust the presentation of their views to Gulf, in view of the latter's existing relationship with the A.I.O.C.

PERSIA : QUARTERLY POLITICAL REPORT*Political Events in Persia—July to September 1953*

(Confidential)

Dr. Musaddiq, whose high-handed and unconstitutional behaviour had steadily been losing him popular support, came to rely more and more on the Tudeh (Communist) Party. With their help he attacked the remaining vestiges of constitutional government. The Shah still stood in his way, however, and it appeared that his unsuccessful attempt to dismiss Dr. Musaddiq had precipitated the advent of a Communist régime and his own abdication. But

a surprising outburst of popular emotion then swept away Dr. Musaddiq himself, and the Shah regained, in one day, a degree of influence which he had hardly enjoyed even before the assassination of General Razmara in 1951. The new Government of General Zahedi succeeded in restoring order, but many of Persia's most vital problems still await a solution.

Events Leading to the Change of Régime

2. At the end of June Dr. Musaddiq had scored a notable success by ousting Kashani from the presidency of the Majlis and substituting his own nominee. The Opposition, however, did not accept defeat and, no doubt encouraged by General Eisenhower's public withdrawal of support from Dr. Musaddiq, tabled interpellations against the Government for the 14th of July. Dr. Musaddiq refused to attend the Majlis to answer and began privately to threaten a referendum, by which the Persian people should be asked to choose between himself and the Majlis. Using this threat, he persuaded the greater number of the Deputies to resign, so that the Majlis could no longer meet for want of a quorum.

3. The extent of Musaddiq's dependence on the Tudeh was shown on July 21, when there was a large demonstration to commemorate the riots which ended the short-lived premiership of Qavam in 1952; the bulk of the demonstrators were Tudeh-inspired and the Government participation was insignificant.

4. Having reduced the Majlis to impotence, Musaddiq on July 27 called for a nation-wide referendum to decide whether it should be dissolved. To objections that the constitution provided for no such referendum, he replied that "no law can override the people's will". The referendum was completed by August 10. No trickery or intimidation was spared to produce the desired result, and in this the Government had the complete and efficient co-operation of the Tudeh. The result showed 2 million votes in favour of dissolution to just over 1,000 against. On August 14 Musaddiq called on the Shah to dissolve the Majlis.

5. Surprisingly, the will of the Opposition was not by any means cowed. On July 27 they had taken sanctuary in the Majlis, whence, on August 9, they sent a telegram of protest to the United Nations.

The Events of August 15 to 19

6. For some time the newspapers controlled by the Tudeh had been warning the Government of an impending military *coup*, with which they had connected the visits to Tehran of Princess Ashraf at the end of July and of the American General Schwarzkopf (whose audience with the Shah had also been violently attacked by the press organ of the Minister for Foreign Affairs). On August 15 these newspapers stated that the *coup* had been due to take place the previous night but had been postponed for 24 hours. That evening the Imperial Guard arrested several of Musaddiq's Ministers and delivered to him what purported to be a copy of a decree from the Shah dismissing Dr. Musaddiq and appointing General Zahedi in his place. Musaddiq had, however, been forewarned of this plan, which miscarried, principally because the conspirators failed to seize the General Staff headquarters. On hearing this, the Shah at once flew to Bagdad, later alleging that he had done so to avoid bloodshed.

7. Musaddiq's first act was to issue a proclamation under his own authority dissolving the Majlis. Later in the day mass meetings were organised to protest against the Shah's conduct; and Communist spokesmen and Government-controlled newspapers vied in hurling insults at him and at the dynasty. The Tudeh were now openly campaigning for a referendum to end the monarchy.

8. Musaddiq, it appeared, still hesitated to put himself entirely in their hands, although he was in constant communication with them. By August 18, the police had orders to break up Tudeh demonstrations and there was no longer the co-operation between Musaddiq and the Communists which had been so successful in the demonstrations of July 21, and in the organisation of the referendum. The general public seemed alarmed and disgusted by the anti-Shah campaign; the army, whose loyalty to Musaddiq had always been doubtful, were offended by a circular instruction to omit the Shah's name from army prayers; and the Opposition press, which somehow managed to continue publication, revealed that General Zahedi had not abandoned his hope of establishing a new Government and published facsimiles of the Shah's decree appointing him Prime Minister.

9. Thus when, on the morning of August 19, Royalist demonstrations started in the Bazaar, the two forces which might have suppressed them—the Communists and the army—were not fully supporting Musaddiq. The demonstrations spread to the north of the town; the Royalists succeeded in capturing the radio station, which enabled them to give the impression to the country at large that they were in control; and by nightfall Musaddiq and his Ministers were in hiding and General Zahedi had taken over control. The large provincial centres quickly followed the lead of Tehran, although Musaddiq's supporters held out longer in Isfahan than elsewhere. The Shah, who was by this time in Rome, was soon on his way back to Persia, where he arrived on August 27.

Developments After the Change of Régime

10. The new Government's first task was to re-establish and strengthen internal security. For some days there appeared a danger that the Tudeh would not accept defeat and would attempt a counter-coup. The Government acted against them with great energy, seizing large

quantities of subversive literature, some arms, ammunition, duplicating equipment and so forth, and making many arrests—but with incomplete efficiency, so that many of the key leaders of the party slipped through their hands. But at least the Government can reasonably claim to have largely separated the party from the masses, by suppressing its overt newspapers and cover organisations (such as the Partisans of Peace, and the Democratic Youth Movement). The party has had to go underground, where, however, its organisation, still largely intact, is engaged on a vigorous campaign for a United Front with other elements opposed to the present régime.

11. The size and influence of these elements should not be underestimated. Not in vain had Dr. Musaddiq for two years posed as the champion of Persian nationalism: nor had his régime failed to create, like other arbitrary Governments, a vested interest in its own survival. In particular, the strong Qashqai tribe in the south of Persia, whose Khans had always opposed the Shah, had under Musaddiq been freer than before from governmental and particularly from military interference. Several of the Khans escaped seizure by the Government and retreated to their mountain fastness, where the Government was soon faced with a minor rebellion. This, however, it succeeded in limiting; and by the end of the quarter the Qashqais were no longer a serious threat to security. Another element of potential opposition was constituted by those Nationalist leaders who, during Musaddiq's supremacy, had quarrelled with his autocratic methods. The arch rabble-rouser Kashani did not resume political activity, and is perhaps saving himself for a come-back later. Other leaders such as Baqai and Makki gave only conditional support to the new Government and later began to move into open opposition.

12. Musaddiq had also derived support from middle-class groups who saw his régime as the only alternative to the continuance in power of the corrupt and semi-feudal class which had largely governed Persia since the abdication of Riza Shah. To these groups the new Government had apparently little to offer. The Cabinet, hastily formed directly after the change of régime, consisted largely of the traditional class of politician who had been in and out of office for years, and although General Zahedi had begun with sweeping but vague promises of social reform, few specific measures to this end were announced, still less put in hand.

13. Another threat to the new Government's stability came from its delay in dealing with Dr. Musaddiq and his Ministers, all of whom, except the Minister for Foreign Affairs, Husain Fatimi, were arrested in the first few days after the change. It was some weeks before even the preliminary investigation, necessary before formal charges could be made, started; and by the end of the quarter the trial, which was to be before a military court, had not begun. This hesitation in dealing with Dr. Musaddiq naturally gave heart to his supporters.

14. Another grave weakness was the increasing reports of dissension between the Shah and his Prime Minister over the control of the army. Before Dr. Musaddiq deprived the Shah of his last powers over the armed forces, the Shah had the recognised right of appointing the Minister of War and Chief of General Staff; but he now claimed to be in fact as well as in name commander-in-chief, and appeared to resent any "interference" by General Zahedi with the armed forces, going so far as to say that the Prime Minister had nothing to do with them.

Economic

15. The new Government lost no time in telling the world in what a sorry plight two years of Musaddiq's rule had left the country's finances. The Shah broadcast a general appeal for help and the Minister of Finance gave figures for total Government indebtedness, which rather misleadingly included the total of Government debts to the Central Bank which had been accumulating for many years. On September 26 General Zahedi addressed to President Eisenhower a formal appeal for help, which the President promptly answered with a grant of \$45 million. Some of this was paid over almost immediately to the Persian authorities, who were then faced with the problem of how to convert it into rials to meet their budget deficit. They could only do so initially by selling the foreign exchange for rials, to merchants who wished to import foreign goods; but the existing import licensing policy, excluding all non-essential goods, did not permit of a sudden large expansion in Persian imports. Further, the merchants, expecting that the new abundance of foreign exchange would move the exchange rate in favour of the rial, were holding off. Later a scheme was worked out whereby the Bank Melli made a rial loan to the Government covered by dollars from the United States allocation, which would pass into the possession of the Bank Melli should the Government fail to redeem the loan.

Foreign Affairs

From July 1 to August 19

16. July saw a radical alteration in United States policy towards the Government of Dr. Musaddiq. Some time previously Dr. Musaddiq had asked President Eisenhower for extensive American financial help. The President replied that the United States Government could not consider giving this help so long as the Persian Government refused to settle the oil dispute on reasonable terms and thus to take advantage of their own abundant resources. Until that happened American public and Parliamentary opinion would not understand any action by the Administration to give large-scale help to Persia. This letter was eventually published on July 12, much against Dr. Musaddiq's will, and had an instantaneous and

unfavourable effect on his standing in Tehran. This was followed up on July 29 with a statement by Mr. Dulles, expressing alarm at the latitude allowed by Dr. Musaddiq to the Communists in Persia and by a similar statement by the President on August 3, pointing to the collaboration given to Dr. Musaddiq by the Communist Party in the organisation of the referendum.

17. While the United States Government were thus publicly cooling off towards Musaddiq, the Soviet Government were warming up. Towards the end of June it became known that M. Molotov had offered to negotiate with the Persian Government on frontier differences between the two countries. It appeared that in their reply the Persian Government, while welcoming this initiative, had expressed their strong preference for negotiations which should cover the whole range of differences between the two countries : the outstanding Soviet liabilities towards Persia in respect of funds supplied to Soviet forces during the war, the obsolete clauses of the 1921 Treaty and other matters. Perhaps the Eisenhower letter finally decided the Soviet Government to take the plunge : at any rate the Soviet Government then dropped their insistence on limiting the discussions to frontier questions and on August 10—two days after M. Malenkov had made a friendly reference to Persia in his speech—it was announced that the Soviet and Persian Governments had agreed to set up a commission to discuss the whole range of differences between the two countries. The Soviet Delegation for these discussions arrived in Tehran on August 13. Meanwhile M. Sadchikov, for some years Soviet Ambassador in Tehran, had left amid demonstrations of friendship by the Persian Government, and had been succeeded by M. Lavrentiev, formerly Soviet representative in Roumania and in Yugoslavia, where he had been at the time of Marshal Tito's defection.

After August 19

18. The new Government were naturally preoccupied in re-establishing law and order at home and with other internal problems and had little time to spare for foreign affairs. Nevertheless it was clear that General Zahedi was concerned to repair the damage done by Dr. Musaddiq to Persia's relations with the rest of the world. One of his first acts was to visit the Ministry of Foreign Affairs and address the officials there on his desire that Persia should maintain friendly relations with all other countries. The Acting Minister for Foreign Affairs also invited the foreign representatives in Tehran to stimulate the despatch of congratulatory messages to the Shah from their respective Heads of State. The biggest feather in General Zahedi's cap was of course an open message of congratulation from President Eisenhower which was published shortly after the change of régime.

19. General Zahedi had naturally to be cautious in his approach to Anglo-Persian relations. In a broadcast only a few days after the change, the Shah had said it would not be his Government's policy to resume diplomatic relations with Britain at present and that they stood by the nationalisation policy of Dr. Musaddiq. General Zahedi's line, so far as it could be deduced, was rather less negative and in a letter of August 26 to the President, appealing for American help, he used a form of words which indicated that his Government would be prepared to work for the settlement of their differences with Britain. Early in September the Shah, through the Swiss Minister, and General Zahedi, through Mr. Henderson, sent messages to Her Majesty's Government expressing their general wish for good relations and suggesting some undefined "gesture" which might make it easier for them to make such a policy palatable to Persian public opinion. It appeared that the Government had not definitely decided whether to resume diplomatic relations before entering on negotiations for an oil settlement or *vice versa*, though it was plain that the latter course had the greater appeal for them. Late in September a request reached Her Majesty's Government through the United States Ambassador in Tehran for help in supplying railway construction material, which had been ordered from Britain in 1950 and of which deliveries had been interrupted by the 1951 crisis. A few days later Mr. Entezam, Persian Ambassador in Washington, met the Minister of State in New York and spoke to him, on instructions, of his Government's desire for friendly relations, but also of their feeling that some progress towards an oil settlement might have to be made first.

20. Immediately before the abortive attempt to oust Dr. Musaddiq on August 15, the Soviet press reproduced, with uncanny celerity, the accusations carried in the Tehran Communist press that a Royalist *coup* was impending. The subsequent anti-monarchic manifesto of the Tudeh Party was given great publicity by the Soviet propaganda machine. The latter, evidently nonplussed by the sudden Royalist recovery, made no comment of its own on the Persian situation, but managed, by discreet quotation, to suggest that the change of régime had been engineered by the "American imperialists". There can be little doubt that the Soviet Government were genuinely taken aback by this change, and that they had been expecting the rapid arrival of a Tudeh Government. Perhaps no one will ever know what truth lay in the report which burst on Tehran on September 1 that the Soviet Ambassador had committed suicide, fearing recall to Moscow after the failure of Soviet policy. He remained *incommunicado* in the Soviet Embassy, allegedly suffering from heart disease, until September 9 when he was seen by the Persian Chief of Protocol.

21. The policy of the new Persian Government towards the Soviet Union was cautious and sensible. It was their declared intention, while combating communism vigorously in Persia, to preserve correct and if possible friendly relations with their northern neighbour and, soon after his accession, General Zahedi announced his intention of resuming the negotiations

on outstanding questions with the Soviet Government as soon as practicable. A few weeks later one of the usual annual barter agreements was signed between the two countries. The Soviet Embassy protested at various outspoken attacks on the Soviet Union published in the Tehran press ; and the Persian Government began to find increasing cause of complaint in the Soviet and Satellite propaganda attacking the new régime as an American puppet.

Oil

22. During its last days, the Musaddiq régime was preoccupied with its struggle against the Persian Constitution and had little time to spare for oil. Indeed, at the beginning of August Dr. Musaddiq informed a foreign press correspondent that there was now no hope of fresh negotiations to settle the oil problem, although on August 10 it was announced that a dossier of claims against the Anglo-Iranian Oil Company was being prepared.

23. The new Government abstained as far as possible from commenting on the oil problem, which they maintained must wait until internal order and stability had been re-established. But they soon began to declare that they had every intention of reactivating the Persian oil industry and by the middle of September various newspapers known to support the Government were emphasising the need for an oil settlement. On September 27 a Government spokesman announced that no decision on the oil question had been taken by the new Government : they were still studying reports on the oil industry submitted to them by the National Iranian Oil Company. The next day the Government published a long communiqué giving a frank account of the deplorable state of the oil industry after two years of nationalisation. Equipment, particularly transport, had seriously deteriorated and the N.I.O.C. owed large sums of money to the Government. Sales of oil made during these past two years had been negligible and much capital and many technicians, which could only come from abroad, were necessary before production on a reasonable scale could be resumed. This statement was taken up and vigorously commented on and applauded in the press.

24. One result of the change of régime had been to cast doubt on the various contracts signed but never brought into execution between Persia and various foreign firms, principally Italian, for the purchase of Persian oil in the face of the "embargo". The promoters of these contracts were scurrying anxiously around wondering whether all their dreams of sudden wealth must now be held to have vanished. The new Government, at any rate, were no longer much interested in sales at a heavy discount, which, even under Dr. Musaddiq's régime, had provoked much criticism in Persia. It was announced in the first half of September that the original offer of a 50 per cent. rebate would expire in the middle of the month.

Eastern Department,
November 19, 1953.

No. 91

UNITED KINGDOM PROPOSAL FOR A JOINT ANGLO-PERSIAN COMMUNIQUÉ

Foreign Office to Sir Gladwyn Jebb (New York)

(No. 1337. Confidential)
(Telegraphic)

Foreign Office,
November 21, 1953.

Your telegram No. 1099 of November 15. For Minister of State.

For your information only, I am now trying to draft, in consultation through the United States Embassy here with Henderson at Tehran, a joint Anglo-Persian communiqué which, after announcing agreement to resume relations, would go on to rehearse a formula about oil calculated to meet Entezam's point in paragraph 2 of the telegram under reference. The same point was made in an earlier message to me from the Persian Government. If Henderson tells me that in his view my draft formula might permit the Persians to agree to exchange Ambassadors, I shall ask Swiss Minister to put it to Zahedi.

2. In any further talk with Entezam you might take the following line. Agreement on principles is frequently the most difficult part of any negotiations, and it is putting the cart before the horse to suggest that the principles of an oil settlement should be settled before negotiations begin. We entirely agree that the two Governments ought to be in direct contact, and indeed direct contact is the only practical way of negotiating an oil settlement. The proper way to establish such direct contact is through an exchange of Ambassadors. We recognise that the Persian Government face difficulty with their public opinion. But this difficulty is at present no greater than that which they will face when they come to presenting an oil settlement, however good, to their public opinion. It is up to the Persian Government to re-educate their public, and we believe that the efforts already made in this direction could be more vigorously pursued. As for Hoover's visits to Tehran and London, although useful they were no substitute for direct contact.

EP 1051/67

No. 92

SUGGESTED TERMS FOR A JOINT ANGLO-PERSIAN COMMUNIQUÉ*Aide-mémoire handed to the Swiss Minister on November 24, 1953**Foreign Office,**November 24, 1953.*

(Confidential)

Her Majesty's Principal Secretary of State would be glad if the Swiss Minister at Tehran could be instructed to pass the following message to Mr. Entezam, the Persian Minister for Foreign Affairs:-

" You will recall that, in the last message I sent to General Zahedi, I said that I was considering whether there was anything further I could do to assist the Persian Government in their difficulty over a resumption of diplomatic relations. I have given much thought to this, and believe that the best way to proceed would be for us to agree upon the text of a joint communiqué which could be put out simultaneously in Tehran and London. The terms of the communiqué might be as follows : -

" Her Majesty's Government and the Persian Government have now decided to resume diplomatic relations and to exchange Ambassadors without delay. They will thereafter proceed at the earliest mutually agreed moment to negotiate a settlement of the oil dispute which has recently clouded relations between them and thus to complete the restoration of their traditional friendship. They are confident that, with goodwill, a solution can be reached which will take account of the national aspirations of the Persian people regarding the natural resources of their country and which, on the basis of justice and equity, will safeguard the honour and interests of both parties.

Thus it is hoped that a real contribution will have been made to the welfare of the two peoples and to the cause of peace and international co-operation".

I very much hope that you will be able to concur in the wording that is suggested above and, in that event, all that will remain for us to do is to consort, through the Swiss Government, the time at which we should make our simultaneous announcement. I should be quite ready to leave the choice of time to you, but would suggest that it should be as soon as possible. I feel strongly, as you know, that the present estrangement between our countries should be ended without delay.

EP 1015/264

No. 93

REPORT ON THE POLITICAL SITUATION*(Communicated by United States Embassy on November 24, 1953)*

(Confidential)

There follows Embassy Tehran's general appraisal of the current Iranian political situation and the projection of the appraisal into 1954 :

1. Despite opposition criticism, the Government of General Zahedi, as the legally designated régime of the Shah, will seemingly be able to remain in power for some time to come, provided the Shah does not allow it to be undermined and provided at the same time the Shah permits the Government to carry out effective measures to reduce opposition. The political forces of the Nationalists continue disrupted and there appears no popularly recognised Nationalist political leader available other than Musaddiq and he, of course, is in prison. The decisive political force in the country for some time has been the armed forces although under the régime of Musaddiq this fact was somewhat obscured by the unwillingness of the Shah to use the armed forces in a manner contrary to Musaddiq's desires. It was because Musaddiq was not able to control the armed forces that the constitutional issue which divided Musaddiq and the Shah was settled in the Shah's favour.

2. Although faced with a serious situation resulting from Musaddiq's rule, General Zahedi has been endeavouring to follow the constitution without the plenary powers held by his predecessor. Because of his constitutional and legal restrictions from which he seems unwilling to extricate himself by extralegal actions, it is doubtful if his régime during 1954 will bring about any significant economic or social reforms. Criticism of any régime in Iran is endemic and General Zahedi's Government is having its share which will be related to its future effectiveness. The Government is continuing its fight against the Tudeh Party, it is not hesitating to effect quasi press censorship and is insisting that criticism has some limits.

3. The continuance of good relations between the Shah and General Zahedi is certainly the major internal political problem. It may be anticipated that the Shah, in traditional Persian manner, will not place complete trust in General Zahedi or give him unqualified backing. Musaddiq's trial, which is being handled under the Shah's authority, is having

some adverse public effect upon the Government. On the other hand, both the Shah and General Zahedi are in agreement that, because of the disruption of Parliamentary development under Musaddiq, the elections for the next Majlis should be fully controlled. Both state that they will be able by compromise to agree on an acceptable single list. They also assert that new deputies should be elected from the areas in which they reside.

4. As for 1954, the Embassy does not anticipate material change in the political activity of the various Iranian social groups. With the exception of possible intrigue by the Qashqais, tribal and peasant activity will probably not be of decisive importance. The Government may have to meet in part the agitation of the workers for higher wages and the unemployment problem. The merchants, especially those who profited by Musaddiq's inflationary policies, will have to be convinced by the Government of the benefits inherent in an improved economic situation resulting from a settlement of the oil dispute. The Government will also have to face the perennial problem caused by the frustration of educated Iranians in obtaining suitable jobs because of the economic and political conditions in Iran. The Embassy considers that probably the best the Government will be able to do during 1954 is to prevent popular frustrations from increasing, to continue the campaign against the Tudeh Party and to allow improved conditions resulting from an oil agreement and the resumption of significant Iranian exports of oil to have their effect.

5. In the absence of an oil agreement or, failing this, continued financial aid from the United States, it appears to the Embassy impractical to think that any non-Communist Government, no matter how authoritarian, could last. Public opinion may be mobilised in support of an oil settlement or at least neutralised provided it feels Iranian rights are protected by such a settlement. Despite the broad nature of this concept, General Zahedi's Government will have to make known fully to the Iranian public that in making a settlement he has protected the rights and interests of Iran. The strong measures taken by the Government have "seriously scotched" the Tudeh Party but the Party's essential organisation and leadership remain intact. With no oil settlement or foreign financial aid, the Tudeh Party, allied with discontented Nationalists, could in 1954 once again constitute a serious threat to Iranian independence.

6. With army support any régime fully determined to impose an oil settlement without regard to public opinion could undoubtedly obtain temporary Iranian acquiescence but such acquiescence could be expected to be short-lived. However, the Embassy considerd that the Government of General Zahedi, despite its faults for which certain corrective action can be taken, provides the best available means for reaching an oil settlement which would have the likeliest prospect of durability. The Embassy also considers that the Shah recognises that General Zahedi is in a better position to effect an oil settlement than any potential Prime Minister now that Musaddiq is out of the running. None the less, the Shah might at some later period desire to supplant Zahedi with another who is also opposed to the extreme Nationalists. Zahedi's abrupt dismissal would in all probability strengthen those forces which are against an oil settlement and could undermine any oil arrangement already agreed upon.

EP 15316/101

No. 94

PERSIAN OIL NATIONALISATION (BRITISH RECOGNITION)*Parliamentary Question**November, 1953.*

30. Mr. Fenner Brockway asked the Secretary of State for Foreign Affairs if Her Majesty's Government recognises the legality of the nationalisation of oil in Persia in the same terms as stated by the preceding Government at the time of the Mission of the Right Hon. Member for Ipswich to Tehran.

The Secretary of State for Foreign Affairs (Mr. Anthony Eden) : The present Government, as I understand their predecessors also, are prepared to recognise the principle of the nationalisation of oil in Persia within the framework of an arrangement which, on the basis of justice and equity, satisfies the interests of the Parties concerned.

No. 95

INTERNATIONAL BANK AND FUTURE OIL OPERATIONS

Sir R. Makins to Mr. Eden. (Received November 26)

(No. 2583. Confidential)

(Telegraphic)

Your telegram No. 4784 and my telegram No. 2530.

I saw Black yesterday. He said he had told Hoover that he would be ready to recommend the Bank's participation in the manner proposed if it was clear that all the three interested parties—Her Majesty's Government, the Persian Government and the oil companies—would welcome it. Hoover had assured him that the idea had been favourably received by the Persians, and soundings taken in New York suggested that it would also be welcome to the American oil companies. I said that Her Majesty's Government saw many advantages in the Bank playing the part proposed for it by Hoover, but they had not yet decided on their attitude to Hoover's plan as a whole. As he knew, we were at present trying to resume diplomatic relations with Persia.

2. Black made it clear that he was now considering the participation of the Bank in Persian oil operations only in association with the proposed consortium. The time for interim arrangements has passed, and he did not think the Bank would now consider the direct engagement of technicians to operate the refinery or the oilfields on their behalf.

3. Hoover had estimated that it would cost 70 million dollars to rehabilitate and restart the industry—50 million for the refinery and 20 million for the flow of crude. In addition he thought the Persian Government would have to be given a subsidy of 5 million dollars a month until the oil industry became profitable again. It would not be possible for the Bank to provide the subsidy, but they would, if necessary, probably advance the 70 million dollars for the restarting of the plant. For this a Government guarantee would be required and Black considered that the oil companies might be prepared to find all the money, leaving the Bank to invest simultaneously in other developments in Persia. He was clear that an early start on development schemes would be an essential condition for the success of the oil operation, since it was necessary to give the Persian people some convincing evidence that the reversal of Musaddiq's oil policy was advantageous for them.

EP 1051/71

No. 96

COMMENTS ON MR. EDEN'S NOVEMBER 25 STATEMENT TO PARLIAMENT

(Communicated by the United States Embassy on November 30, 1953)

(Confidential)

Message R

Ambassador Henderson gave to the Foreign Minister the text of Mr. Eden's November 25 statement to Parliament (see Message Q) on the morning of November 28. After careful study, the Foreign Minister commented that although it was not as strong a statement as the Iranian public would like, it would none the less, in his opinion, be helpful.

The Foreign Minister stated that he had discussed with the Prime Minister in a tentative way the communiqué. The latter had offered certain suggestions and asked the Foreign Minister to present the communiqué with the suggestions incorporated at the Cabinet meeting to be held that evening. It might also be suggested at the Cabinet meeting that in the absence of a Majlis the problem of the resumption of diplomatic relations might be considered by some 40 or 50 prominent Iranians who might be called together in the next day or two. The Ambassador replied that should personages such as Maki and Kashani be included in the group, they would attempt to browbeat the other participants. Entezam replied that he thought the type of men who would be convoked would not allow themselves to be browbeaten by extreme Nationalists. He thought that with the support of a body of distinguished experienced Iranian leaders for the establishment of diplomatic relations, the Government's hand would be strengthened.

Some of the suggested changes in the text of the communiqué were read aloud to Ambassador Henderson by the Foreign Minister. The Ambassador was unable to take notes, but from memory, he thinks that the first paragraph of the communiqué would read somewhat as follows:—

"Her Majesty's Government and the Government of Iran are confident that with goodwill a solution of the oil dispute which has recently clouded relations between them can be reached which will take account of the national aspirations of the Iranian people regarding

Washington,
November 25, 1953.

the natural resources of their country and which, on the basis of justice and equity, will safeguard the honour and interests of both parties. They are of the opinion that the establishment of normal relations between the two countries will contribute to the strengthening of this goodwill. The two Governments have therefore decided to resume diplomatic relations and to exchange Ambassadors without delay. They have agreed immediately after the resumption of relations to do their utmost to achieve a settlement of the oil dispute and thus to complete the restoration of their traditional friendship."

As the Ambassador's comment on the tentatively revised text was not invited, he made none except to say that he was certain that the United Kingdom had carefully weighed each word in drafting the communiqué and that he hoped that consequently the Government of Iran would not find it necessary to make many amendments.

The Foreign Minister told the Ambassador that the Swiss Minister had expressed his personal hope that the resumption of diplomatic relations could take place before Vice President Nixon's visit to Tehran. Entezam wondered if the Swiss Minister was voicing the views of the United Kingdom Government in this regard. The Ambassador replied that he was certain that the Swiss Minister was speaking only personally and that as a matter of fact he, Ambassador Henderson, was probably the source of the suggestion. It seemed to the Ambassador that the atmosphere of the relations between Iran and the West would be bettered should the resumption of relations be announced before the visit of the Vice President and the Ambassador had mentioned this thought to the Swiss Minister. None the less, he was certain that both the United States and the United Kingdom Government would welcome diplomatic relations being resumed before December 9.

Ambassador Henderson warns that although the prospects of an early resumption of relations appear a little brighter, it would be dangerous to be over-optimistic with the uncertainty of the current political situation. As an example, the Ambassador points out that the Iranians might make so many changes in the suggested communiqué that it would be unrecognisable.

EP 1051/71

No. 97

PERSIAN MOVES FOR A RESUMPTION OF DIPLOMATIC RELATIONS

(Communicated by the United States Embassy on November 30, 1953)

(Confidential)

Message S

On the morning of November 29 Ambassador Henderson visited the Prime Minister at the latter's request. Both the Prime Minister and the Foreign Minister, who was present, desired to discuss the question of the resumption of diplomatic relations with the United Kingdom, about which they were obviously disturbed and which had been discussed at the Cabinet meeting the night before. According to the Prime Minister, the majority of the Cabinet favoured an early resumption of relations with the United Kingdom, but felt that the British Government was apparently unable to appreciate the emotional problems which the Government of Iran must encounter if it resumed relations without being able to give to the Iranian public some assurance that progress had been made in settling the oil dispute. The majority of the members of the Cabinet considered that the British were being unnecessarily rigid with a Government which sincerely wanted friendly relations with the United Kingdom and which had not been responsible for the break in relations between the two countries or for the anti-British sentiment in the country. The Cabinet had finally agreed, however, that the Prime Minister could submit the matter to two advisory groups. The first would consist of Senators and Elder Statesmen and the second would be composed of Majlis members and other active political leaders. The Prime Minister stated that he hoped to win the support of both groups in the near future and asked what Ambassador Henderson thought of the procedure.

Ambassador Henderson replied that he thought there were certain dangers inherent in discussing the matter with the second group. The group would certainly contain several ambitious demagogues who would be hostile to the resumption of relations, would attempt to intimidate others present and afterwards endeavour to forestall resumption of relations through public agitation. The Prime Minister replied that he was confident that he could gain the overwhelming support of both groups. Ambassador Henderson then suggested that it might be preferable not to submit the text of the draft communiqué or any other documents concerning the resumption to either of the two groups. It might be better to keep his remarks to the groups on a very general plane so that he would be at liberty to proceed without the necessity of having additional meetings to consider changes in details. With this the Prime Minister was in agreement.

In the event that the Prime Minister is able to obtain the approval for immediate resumption of the two advisory groups and the Shah, the Prime Minister and Foreign Minister are apparently still thinking of submitting to London through the Swiss Minister the Iranian counter-draft of the communiqué (Message R).

Should the communiqué be issued, both Ministers thought the Prime Minister would be forced to give immediately an explanatory radio speech to the country. They considered that he might make certain unilateral statements in his speech which would have a calming effect on the nation. Ambassador Henderson suggested that as a matter of courtesy, the proposed speech might be forwarded in advance to London in order that the British might study it to make certain there was nothing in it with which the British would feel compelled to publicly take exception. The Prime Minister agreed that it would be unfortunate if the resumption of relations should be clouded by an exchange of polemics and stated that he would prefer to transmit the text of the proposed speech through the Embassy as he would like the transmittal to be as informal as possible. The document should not be given the semblance of an agreed document binding on both Governments.

Ambassador Henderson gained the impression from his meeting that the Prime Minister was determined to go forward in the direction of resuming relations with the United Kingdom, although he continued to exhibit misgivings. Just before Ambassador Henderson left his meeting with the Prime Minister, the latter remarked that because of the demoralised state in which Musaddiq left the country, he was for the first time hesitating to take actions which he was certain were in the interests of Iran.

EP 1051/73

No. 98

CONVERSATION BETWEEN THE SECRETARY OF STATE AND THE UNITED STATES AMBASSADOR ON NOVEMBER 30, 1953

Anglo-Persian Relations

Mr. Eden to Sir Roger Makins (Washington)

(No. 1259. Confidential)

Sir,

The United States Ambassador informed me this afternoon of an interesting message from the United States Ambassador at Tehran in which the latter reported that the Foreign Minister had sent for him and had said that the Persian Government were thinking of sending us a counter draft of the proposed communiqué about the resumption of diplomatic relations between the United Kingdom and Persia. A paraphrase of Mr. Henderson's message is annexed.

2. After reading the message, I told the Ambassador that at first sight the new Persian formula seemed to me acceptable. I authorised Mr. Aldrich to let Mr. Henderson know, for his own information, that this was our first reaction. It would, however, be better not to say anything for the present to the Persian Government, but to await their approach.

I am, &c.

ANTHONY EDEN.

November 30, 1953.

Ambassador Henderson reported on November 30 that the Foreign Minister, Mr. Entezam, had sent for him and had said, with reference to the conversation which Mr. Henderson had had with General Zahedi and Mr. Entezam reported in Tehran's Message S, that the Prime Minister and Foreign Minister after further discussion had decided to submit a quite different proposal to the Cabinet at its November 30 meeting. Mr. Entezam told Mr. Henderson that they were now thinking of sending a counter draft of the proposed communiqué which would be precisely the same as that suggested by Mr. Eden and forwarded in London's Message P, with the exception of the third sentence which would read more or less in the following terms:—

"They are confident, particularly in view of the fact that the British Government are prepared to recognise the principle of nationalisation of oil in Persia within the framework of an arrangement which on the basis of justice and equity satisfies the interest of the parties concerned, and the Iranian Government are prepared to pay fair and just compensation, that with goodwill a solution can be reached which will take account of the national aspirations of the Iranian people regarding the natural resources of their country, and which will safeguard the honour and interest of both parties."

This counter draft would be sent through the Swiss Minister in Tehran.

Mr. Entezam told Mr. Henderson that if he and Zahedi could prevail on the Shah and the Cabinet to agree to this counter draft they might send it immediately to London without consulting a group of elder statesmen and political figures as they had planned. He then read to Mr. Henderson the draft of a message which he was planning to send along with the counter draft of the communiqué and which stated that if Her Majesty's Government were to agree to the Persian counter draft, the Persian Government would be prepared to agree with the British Government as to a date in the near future on which the communiqué could be issued.

Mr. Entezam continued that he hoped the British would give favourable consideration to the counter draft if it were to be submitted. The clause inserted in the third sentence had been mostly lifted from Mr. Eden's November 25 statement in the House and contained nothing new. Moreover, it was being inserted not as a condition to the resumption of diplomatic relations, but as a statement of facts which led particularly to the hope for an early settlement of the oil problem and with a view to assisting with public opinion in Persia. This clause, moreover, would not cost the British anything.

Mr. Entezam told Mr. Henderson that he might give up the idea of going on the radio immediately after the issuance of the communiqué and instead might immediately issue a press statement which would comment in constructive terms on Mr. Eden's remarks in the House of Commons. Ambassador Henderson asked if the Foreign Minister would like him to try to find out whether a counter draft of this sort would be acceptable to the British, to which Entezam replied that it might be best to defer any action until to-morrow (December 1) as further changes might be made but that if the Shah and the Cabinet should agree to his suggestions, he might ask Mr. Henderson to-morrow to telegraph London explaining the reasons why the Persian Government was proposing the clause in question. Mr. Henderson concludes his message by pointing out that in spite of the fact that the Government of Persia is evidently not yet sure how to reply to Mr. Eden's latest message, he thought it would be useful to have the foregoing indication of the Government's present trend of thought.

No. 99

PERSIAN AGREEMENT WITH OUR PROPOSED TEXT FOR A JOINT COMMUNIQUE

Foreign Office to Mr. Eden (Bermuda)

(No. 103. Confidential)

(Telegraphic)

My telegram No. 99 [of December 3].

Swiss Minister delivered tonight message from Persian Government in which they expressed agreement with the text of the communiqué proposed in your message. They considered that no time should be lost in issuing it and proposed that it should be issued simultaneously in London and Tehran at 10.30 G.M.T. Saturday, December 5. They asked for immediate reply.

In view of Persian request for an immediate reply Cabinet thought that since any delay might provoke second thoughts in Tehran, we could not run that risk and should close forthwith. Swiss Minister was accordingly asked tonight to convey without delay a message to the effect that we accepted Persian Government's proposal.

No. 100

UNITED KINGDOM STATEMENT ON AMERICAN ASSISTANCE DURING THE BREAK IN ANGLO-PERSIAN RELATIONS

(1)

Foreign Office to Mr. Eden (Bermuda)

(No. 113. Confidential)

(Telegraphic)

Your telegram No. 61 [of December 3].

Foreign Office,
December 4, 1953.

It seems desirable, both for Anglo-American relations and in order to show Middle East opinion that we and the Americans have worked closely for the resumption of relations, that in commenting to the press on the announcement tomorrow, we should pay some tribute to United States assistance. On the other hand, we do not wish to appear in public to detract from the value of our own efforts, nor do we wish to give the opposition in Persia an excuse to complain that the British and Americans together have combined to pull a fast one on the Persian Government. We think that the best course might therefore be to concentrate rather on Henderson's part and to say something on the following lines:—

Mr. Eden has conveyed to the United States Secretary of State an expression of Her Majesty's Government's appreciation of the good offices of the United States Ambassador in Tehran, whose assistance has contributed a great deal towards enabling the British and Persian Governments to harmonise their views.

2. Do you agree?

3. Would you also like us to send the Swiss Government a message on the lines of my immediately following telegram?

(2)

UNITED KINGDOM THANKS TO THE SWISS GOVERNMENT*Foreign Office to Mr. Eden (Bermuda)*(No. 114. Confidential)
(Telegraphic)

My immediately preceding telegram.

Now that diplomatic relations between Britain and Persia are to be resumed I should like to express to you, on behalf of Her Majesty's Government, our sincere gratitude for the part played in securing this happy result by the Federal Government and their representative in Tehran, and our lively appreciation of the ability, energy and devotion with which British interests in Persia have been protected during this period.

(3)

From Secretary of State to Foreign Office (Received December 5)(No. 76)
(Telegraphic)

Your telegram No. 113.

I agree and have conveyed message to Mr. Dulles. I should however prefer public announcement to be in the following terms :—

"Mr. Eden has conveyed to Mr. Dulles the thanks of Her Majesty's Government for the good offices of the United States Ambassador at Tehran which have helped to enable Her Majesty's Government and the Persian Government to harmonise their views."

2. I agree to the message to the Swiss Government proposed in your telegram No. 114.

(4)

Sir P. Scrivener to Foreign Office (Received December 5)(No. 396)
(Telegraphic)

Your telegrams Nos. 113 and 144 to Bermuda.

Message was communicated informally this morning. I shall communicate it formally to the Minister for Foreign Affairs during farewell call on December 7.

EP 1051/95

No. 101

**JOINT COMMUNIQUÉ FOR RESUMPTION OF DIPLOMATIC RELATIONS
BY HER MAJESTY'S GOVERNMENT AND THE PERSIAN GOVERNMENT***December 5, 1953.*

Her Majesty's Government and the Persian Government have now decided to resume diplomatic relations and to exchange Ambassadors without delay. They will thereafter proceed at the earliest mutually agreed moment to negotiate a settlement of the oil dispute which has recently clouded relations between them and thus to complete the restoration of their traditional friendship. They are confident that, with goodwill, a solution can be reached which will take account of the national aspirations of the Persian people regarding the natural resources of their country and which, on the basis of justice and equity, will safeguard the honour and interests of both parties.

Thus it is hoped that a real contribution will have been made to the welfare of the two peoples and to the cause of peace and international co-operation.

EP 1891/5

No. 102

RESUMPTION OF ANGLO-PERSIAN DIPLOMATIC RELATIONS*Communicated by the Swiss Minister at Tehran**Tehran,**December 11, 1953.*

(Confidential)

The announcement of the resumption of diplomatic relations was welcomed with relief in most circles and especially by political notabilities. Generally speaking, the Press too reacted favourably.

Already on December 3 I had the opportunity of investigating further with Mr. Entezam and Court Minister Ala the question of the application of the law prohibiting the return to Teheran of diplomats who have been posted in Persia before. As the Act did not receive the Shah's assent, both my interlocutors were of the opinion that there would be no difficulties in having it repealed through a Cabinet decision. Surprisingly, however, Mr. Entezam reverted to this question yesterday during a conversation with the American Ambassador, which prompted me to question him anew on the subject this morning. He told me that there were still some legally-founded doubts whether a Cabinet decision could revoke this law; that there could exist differences of opinion on this point would be enough to give the Opposition ground for attacks against the Government. In case the Foreign Office should contemplate nominating an Ambassador, or staffing the Embassy with diplomats, who have previously been "en poste" in Teheran, Mr. Entezam must request that any such plan be abandoned, because it might create difficulties for the Government. Concretely speaking, this means that in the first place the appointment of Robert Hankey as Ambassador is out of the question. Mr. Entezam knows that the Shah would have taken a favourable view of this appointment; he will inform the Monarch direct why he, Entezam, regards such a choice as inopportune. He asked me expressly to report to you in this sense, for London's information. If, after further examination and consultations with the Shah, there should occur a change in the Persian point of view, which I do not however think probable, I would let you know immediately by telegram.

The Persian Government do not appear to have made plans regarding the re-opening of their Embassy in London.

6th December, 1953.

EP 1151/40

No. 103

UNITED KINGDOM RAILWAY EQUIPMENT FOR PERSIA*Mr. Eden to Mr. Wright (Tehran)**Foreign Office,
December 16, 1953.*

(No. 1. Confidential)

Sir,

Soon after your arrival in Tehran, the Persian Government may enquire from you the prospects of their securing railway construction material from the United Kingdom.

2. As you are aware, a large quantity of this material was ordered in the United Kingdom in 1950. About a third of the contract had been executed when the action of the Musaddiq Government in expropriating the Anglo-Iranian Company's installations made it impossible for Her Majesty's Government to countenance the continued supply of steel, then very scarce, to Persia. The inconsiderable quantities of railway material manufactured under the contract but not delivered were requisitioned and eventually largely dispersed, and manufacture of the remainder ceased.

3. Last September, however, as you will see from the enclosed copies of Lord Salisbury's despatch No. 959⁽¹⁾ of the 4th of September to Washington and of a departmental minute summarising an American report from Tehran, the Persian Government requested Her Majesty's Government to supply this material which, they seemed to imagine, was still stored and available in the United Kingdom. Urgent investigation showed that only a very little of the material manufactured under this contract was still available. Her Majesty's Government are of course perfectly ready to permit the export to Persia of any material which might be manufactured, but are faced with the difficulty that the prices fixed under the contract have now become out of date and that present day export prices would be so much higher as to stand little chance of acceptance by the Persian authorities.

4. They are therefore urgently consulting the manufacturers in the hope of the latter's agreeing to offer some reduced price to the Persian authorities, though such reduction cannot in any case bring the price down to the previous contract level.

5. Should the Persian Government enquire the position, you should say that Her Majesty's Government are willing and indeed anxious that this material should be made available to the Persian authorities, and will put no difficulties in the way of this export. They

⁽¹⁾ Not printed.

understand that the manufacturers are considering most urgently what scope there is for a reduction on the standard 1953 prices, and will put you in a position to speak further with the Persian Government as soon as any definite proposition can be made.

6. I understand that there are doubts whether the Mianeh-Maragheh track, for which these rails are needed, is in fact ready for rail-laying. You should ask the United States Embassy to inform you of the result of enquiries which they are known to have been making : should it prove that rail-laying cannot in fact begin yet, this would strengthen your hand in meeting any complaints by the Persian Government of British delay in meeting their request for this material.

7. I am sending a copy of this despatch (without enclosures) to Her Majesty's Ambassador at Washington.

I am, &c.,
ANTHONY EDEN.

EP 1051/84

No. 104

POLICY OF HER MAJESTY'S GOVERNMENT IN THE RE-ESTABLISHMENT OF DIPLOMATIC RELATIONS WITH THE PERSIAN GOVERNMENT

Mr. Eden to Mr. Wright (Tehran)

(No. 2. Secret)

Sir,

Your duties as Her Majesty's Chargé d'Affaires *ad interim* at Tehran will fall, broadly, into three categories :—

- (a) the re-establishing of friendly relations with His Imperial Majesty the Shah and his Government ;
- (b) the task of assessing the attitude of the Persian Government and public opinion towards a settlement of the oil dispute ; and
- (c) the preparation of the embassy premises against the arrival of Her Majesty's Ambassador.

2. Regarding the first of these categories it would not seem necessary to say more than that you will, of course, bear in mind the desirability of showing, whenever possible, that the behaviour of the previous Persian Government in no way influences the attitude of Her Majesty's Government towards the new régime. That attitude is one of friendship and of readiness to assist Persia by any means that she may desire and Her Majesty's Government be able to provide. As for the third category, you will no doubt already have obtained from the competent authorities in London such guidance as you and your staff will require in dealing with the administrative details of re-opening the embassy.

3. In approaching the second task, that of assessing the Persian attitude towards the oil dispute, you should be guided by the following principles :—

- (a) To be acceptable to Her Majesty's Government, a settlement must ensure :—
 - (i) that the Anglo-Iranian Oil Company receive fair compensation, in some form or other, for the loss of their enterprise in Persia ; and
 - (ii) that Persia does not do better out of her oil than her neighbours out of theirs.

- (b) Subject to those provisos, it is for political reasons a primary objective of Her Majesty's Government to reach a settlement of the oil dispute.
- (c) So far as possible, action in regard to the oil problem should be concerted with the United States Government.

4. On arrival in Tehran your immediate objectives should be :—

- (a) To continue the process, begun by Mr. Hoover, of educating the present Persian Government in the facts of the world oil situation and Persia's own position in relation to it.
- (b) To show that Her Majesty's Government are approaching the problem with goodwill.
- (c) To maintain a united front with the United States Embassy.
- (d) To elucidate the Persian Government's attitude towards the various aspects of the problem and, in particular, towards A.I.O.C.
- (e) To provide Her Majesty's Government with all information likely to assist them to decide on the type of solution which would be acceptable to both parties.

5. In conversation with the Persians you should try to make the following points. I leave to your discretion the degree of emphasis that might be placed on each, and the insistence with which it could usefully be pursued.

- (a) In resuming relations with the United Kingdom the Persian Government have taken a wise and courageous step. The first fruits of it will be to enable Her Majesty's Government to obtain, at first hand, knowledge of how the Persian situation has developed and to inform the Persian Government of how they themselves regard the problem. (See (b) to (j) below.)

(b) The events of the last two years have shown that the world can do without Persian oil ; one of Dr. Musaddiq's main disservices to the Persian people was to let this fact be so clearly demonstrated.

(c) Nevertheless, the aim of Her Majesty's Government is to help Persia to bring her oil back into world markets, to enable her to strengthen her economy and to give her people the prosperity that oil revenues can bring. The United Kingdom, moreover, will take account of the national aspirations of the Persian people.

(d) At the same time, the United Kingdom also has certain vital interests in the problem. The A.I.O.C.'s enterprise in Persia, before the events of 1951 and 1952, represented the greatest single United Kingdom overseas industrial investment ; the fruit of decades of patient exploration and of readiness to accept enormous risks. The United Kingdom expects the Persian Government to take account of this. Further, the present state of the international oil market is such that no purchaser capable of handling Persian oil in large quantities would be willing to pay more for Persian oil than it has to pay in the neighbouring Middle East States. If therefore the Persians want to sell their oil, on a large scale, they certainly cannot expect terms more favourable than those enjoyed by neighbouring oil-producing countries.

(e) These considerations (as both Governments have publicly recognised) compel a solution to the dispute which, on the one side, recognises the national aspirations of the Persian people, and, on the other, is based on those principles of justice and equity that alone can provide enduring relationships between nations.

(f) Hitherto the issues have been obscured and progress made impossible by the false propaganda of Dr. Musaddiq's régime. Her Majesty's Government have noted with appreciation the efforts of the present Persian Government to bring the real facts before the Persian people ; and they are ready to co-operate in the development of that process should the Persian Government so wish.

(g) The practical side of the problem is of the greatest importance. Her Majesty's Government have been much encouraged by Mr. Hoover's account of the Persian Government's realistic approach ; indeed, it is this that gives them confidence that a solution can be found, for the insuperable difficulty with Dr. Musaddiq was that he refused to be practical. Her Majesty's Government understand from Mr. Hoover that the Persian Government are anxious to see their oil flowing again into world markets and to earn revenue from it for their people ; and that they accept the need to co-operate, for this purpose, with those who have the expert knowledge, the markets and the marketing facilities that are necessary. Her Majesty's Government would wish to have that understanding confirmed. The Persian Government should realise that off-takers of their oil would need not only an assurance of stability but also security over the safety, efficiency and economy of the technical operations.

(h) There is no doubt, from a practical standpoint, that no-one is so well qualified to co-operate with the Persian Government in this way as the people who did so before : the A.I.O.C. In any case there are matters in dispute between the Persian Government and A.I.O.C. which can only be settled by direct talks in which representatives of A.I.O.C. take part. Her Majesty's Government hope that the Persian Government will see the advantages of taking a practical and realistic view of the very real contribution that the company is able and ready to make to a mutually satisfactory solution. A direct arrangement with A.I.O.C. would bring efficient operation. The company would be very ready to discuss forthwith with the Persian Government the possibility of an arrangement of this kind, or any of the technical and commercial problems outstanding.

(i) One of the most urgent practical requirements is to ascertain the present condition of the oil installations themselves. A great deal of money will be needed to get them into operation again, and before any commitments could be entered into the magnitude of this problem must be assessed. As a practical step, and with no commitment on either side, as to the eventual form of a settlement, would it not therefore be wise for the Persian Government to arrange for an expert investigation at once ? If so, no-one could do it so quickly or so well as A.I.O.C.

(j) Another problem which the Persian Government face is that of reconciling a solution which involves foreign co-operation with the existing Persian laws. Her Majesty's Government understand from Mr. Hoover that the Persian Government believe that this would be possible : and here also they would welcome confirmation of that understanding.

6. It is probable that the Persians will themselves ask certain questions. Should they do so, you may find the following material useful in formulating your answers :—

- (i) "Did Mr. Hoover convey to Her Majesty's Government the contents of the unsigned document on oil which he was given in Tehran ?"

Mr. Hoover mentioned the gist of this document in general terms to me at a luncheon on the 5th of November. I said at once that it contained many ideas which were unacceptable ; and it is our understanding that Mr. Hoover therefore decided that it would be unhelpful to leave the document with us.

(ii) "What is the British attitude to participation in a solution by the International Bank?"
The Persians should at once be asked to define their own attitude to this. It should be made clear to them that Her Majesty's Government cannot commit themselves to this or indeed to any particular form of solution, until they have received a considered report from you. Meanwhile, however, all Persian suggestions will receive full consideration.

(iii) "Do Her Majesty's Government insist that A.I.O.C. should be the only party to a settlement, or would they agree to a multi-national consortium?"

The Persians should be asked what they have in mind. Their objections to A.I.O.C. will no doubt include false accusations against the Company, and you should take the opportunity to refute these. In so far as their objections are based on reasonable grounds, e.g., the need to take account of the realities of the political situation in Persia or a desire not to leave the off-taking of oil solely in the hands of one company, you should say that you will refer their ideas to Her Majesty's Government. You should in any case remind the Persians that A.I.O.C. alone of foreign companies has rights in Southern Persia, and stress the practical advantages of A.I.O.C. playing a leading part in any settlement, on the lines of paragraph 5 (h).

7. It is evident that the foregoing line of argument has as its objective a direct settlement between the Persian Government and the A.I.O.C.; that, from the point of view of Her Majesty's Government, would be the most satisfactory outcome. In any case, Her Majesty's Government must be able to form their own judgment of the chances of such a solution; and their judgment will be based to some extent upon the Persian Government's response to this line of argument. For your own information, however, Her Majesty's Government would not exclude certain other possibilities. They are:—

- (a) An agreement concluded with a group of companies (including A.I.O.C.);
- (b) the participation of the International Bank in some shape or form.

8. You should bear in mind that a satisfactory solution cannot be secured without

- (i) a certain measure of foreign management (in a consortium (7 (a) above), the United States companies would almost certainly insist on very full management);
- (ii) an arrangement not more lucrative to Persia than the arrangements existing between other Middle East States and their foreign oil companies; and
- (iii) substantial participation by A.I.O.C. and in any event a larger share than that of any other company taking part.

9. You should take no initiative in discussing the possibilities mentioned in paragraph 7 above. If they are mentioned to you, you should endeavour to obtain as clear an impression as possible of the way in which the Persian Government are thinking; and you should then undertake to report on it in full to London. At the same time, however, you should be prepared to advise me at once if, in your judgment, an opportunity is likely to arise to reach a rapid and satisfactory agreement on the basis of these possibilities.

ANTHONY EDEN.

No. 105

RESUMPTION OF DIPLOMATIC RELATIONS : PRESENTATION OF CREDENTIALS BY AMBASSADOR

Mr. Wright to Mr. Eden (Received December 23)

(No. 4. Confidential)

(Telegraphic)

I presented my letter of credence to Minister for Foreign Affairs this morning. The Swiss Minister at the request of Entezam accompanied me.

2. Although proceedings were necessarily rather formal, Entezam greeted me with a friendly welcome speech in which he said how pleased he was at the resumption of diplomatic relations and quoted Sa'di to the effect that old friends got to appreciate each other better following an estrangement. The Persian Government wished to forget the past and start afresh in the belief that with goodwill on both sides we could solve our common problems.

3. I assured him of Her Majesty's Government's goodwill and anxiety to reach a settlement. I also congratulated him on the courageous step he had taken in resuming diplomatic relations and assured him that I would move cautiously as Her Majesty's Government had no wish to embarrass him in his task.

4. Entezam took the point that I should have to spend some time in assessing the attitude of the Persian Government and public opinion. I pointed out that I was, to some extent, handicapped by lack of staff with previous Persian experience.

5. Entezam asked me to convey his greetings to you, Sir, and ended by saying that he would ask me to call early next week for a long talk.

No. 106

MEETING WITH SHAHRUKH AND PERRON

(1)

Mr. Wright to Mr. Eden (Received December 23)

(No. 6. Confidential)

(Telegraphic)

Tehran,

December 23, 1953.

Before my arrival the Shah, through his sinister Iscl secretary Perron, had asked the Swiss Minister to arrange an immediate mealtime meeting between me and Bahram Shahrush (1951 personality, Number 174). After discussing with the United States Ambassador I felt I could not well refuse this rather embarrassing invitation, and accordingly I met Shahrush and Perron alone at dinner last night with the Swiss Minister.

2. Shahrush did all the talking. He said that the Shah was very pleased that diplomatic relations had been resumed and was most anxious to help me in my mission; I could at any time send him a message through Shahrush or Perron. Shahrush's main theme was that there was much latent goodwill toward us and that he thought my first objective should be to sound this out by making suitable gestures, e.g., by early delivery of rails stored at Basra, by friendly references by the B.B.C. to Persia and by developing contact with the Persian press. I agreed with this objective. I pointed out that the rails were no longer in Basra but that you were personally interested in seeing that speedy action was taken over the rails now in the United Kingdom.

3. Shahrush talked rather woollily about the oil problem. I stressed that we were as anxious as the Persian Government to reach a speedy settlement and that we should do all we could to this end which I believed possible provided question of fair compensation formed part of it. I stressed that this was a principle to which we were as firmly attached as the Persians were to that of nationalisation. Shahrush mentioned last week's talks between the A.I.O.C. and the American Oil Company and appeared to believe that some firm arrangement on marketing had been agreed upon. I explained the hypothetical nature (grp. undec.) and sounded him out on the possibility of direct negotiation between A.I.O.C. and the Persian Government pointing out that this would be the most practical way to reach a quick solution. His view was that because of very strong feelings against the company in Persia such negotiation would be impossible, but he did not exclude the representative of the A.I.O.C. being included in any negotiating team that might be sent here.

4. At one stage Shahrush whispered that the Shah was thinking of dismissing Ala but would not wish to do so if this might be taken by us as an anti-British move. I said that neither I nor the members of my staff had any intention of interfering in Persian domestic affairs, and that it was for the Shah and his Prime Minister to decide what actions were for the good of the country. I also took the opportunity, when he started criticising General Zahedi's adviser, of stressing my admiration for the Prime Minister's achievements since August, and mentioned that you had expressed sympathy for his efforts in the House of Commons on December 17.

5. Although the Swiss Minister was anxious I should keep this meeting secret (presumably at the request of Perron) I decided after discussion with Henderson to tell the Minister for Foreign Affairs of it when I called on him this morning.

6. I have not yet been able to discover how important Shahrush is in the present scheme of things here.

(2)

SHAH'S VIEWS ON FUTURE RELATIONS

Mr. Wright to Mr. Eden (Received December 26)

(No. 12. Confidential)

(Telegraphic)

Tehran,

December 26, 1953.

My telegram No. 6.

The Shah's friends.

I was called upon twice on Christmas Day by Messrs. Perron and Shahrush allegedly at the urgent request of the Shah who is leaving for the Caspian on December 27.

2. At the first meeting Shahrush again did all the talking, this time from typewritten notes which he said embodied the Shah's views. Briefly these were:—

(a) The Shah was a firm believer in Anglo-Persian friendship as a basis for a strong, independent and prosperous Persia.

- (b) The Shah's strong personal position as Head of the State was such that we would be able more easily to reach a settlement of our problems by agreeing things first with him, rather than through other persons; in other words we should clear our lines with the Shah first.
- (c) The Shah was willing to act as strongly in Persian internal affairs but, in order to do so, he needed a clear understanding of our aims and an assurance that we would not interfere with "various groups" in Persia. The Shah had recently made a similar request to the United States Government through Mr. Nixon and the United States Ambassador. If I could give such an assurance it would help the Shah to avoid interference either from the Americans or from the Russians.
- (d) The Shah wanted a quick settlement of the oil question and therefore wanted me to inform him in confidence how we proposed to settle it.
- (e) With reference to what I had said in my earlier conversation with Shahrush about direct negotiations with A.I.O.C., the Shah's view was that the appearance in Persia of an A.I.O.C. Mission "would greatly provoke Persian public opinion and thus handicap the negotiations but he believes that A.I.O.C. experts could participate later in the negotiations under the cover of the compensation question, and preferential rights they have by law for purchase of Persian oil". The Shah's view was therefore that the oil negotiations should be started on a governmental basis.
- (f) The appointment of Ambassador should wait until the way had been cleared for a settlement of the oil problem.

3. In reply I made the following points:—

- (a) Her Majesty's Government were equally anxious to develop Anglo-Persian friendship and see a strong independent and prosperous Persia.
- (b) While I welcomed the Shah's willingness to help me by direct contact to settle our problems, I could not be put in a position where I should be negotiating secretly with the Shah without the knowledge of his Prime Minister and Minister for Foreign Affairs. Anything I said to the Shah I should also wish to be able to say to his Ministers, and I hoped they would be aware of the messages the Shah was sending me.
- (c) I could give a solemn assurance that neither I nor my Government had any intention of interfering in Persian internal affairs. If such rumours came to the Shah's ears I should be glad if he would discuss them with me immediately.
- (d) Her Majesty's Government was equally anxious for a speedy settlement of the oil problem. My first task was exploratory and I had no solution in my pocket which I could show to the Shah. We would, however, welcome any realistic proposals that the Persian Government might care to let me have. In submitting such proposals the Shah should know that there was no real demand in the world for Persian oil at the moment, and that any acceptable settlement would have to safeguard two basic principles, viz., payment for fair compensation and that Persia should not do better out of it than her neighbours.
- (e) I had only a few hours previously been instructed by you to request *agrément* of an Ambassador and I proposed to do so when I saw the Minister for Foreign Affairs early next week. The question of when the Ambassador should arrive could, I thought, be mutually agreed but I hoped the Shah would not dissent from my request of *agrément*.

4. Please see my immediately following telegram.

(3)

Mr. Wright to Mr. Eden (Received December 26)

(No. 14. Confidential)
(Telegraphic)

My telegram No. 12.

Some 5 hours after our first talk Messrs. Perron and Shahrush returned with a piece of paper allegedly setting out the Shah's comments on our morning's discussion.

2. After reading it I said that I was still not happy about the Shah's view that I should deal with him exclusively, even on certain oil matters. I felt that, since this was a matter so closely affecting Persian public opinion, I must be able to discuss it freely with his Minister for Foreign Affairs. I considered it imperative that I should retain his Ministers' confidence and I could only do this if I knew they were being kept informed of what the Shah was saying to me and vice versa. I suggested therefore that in order to clarify the position I should see the Shah.

3. Perron and Shahrush said they were willing to arrange a secret meeting with the Shah though, in view of certain changes which the Shah was contemplating in the Government, it might be better if I saw him after his return from the Caspian, otherwise I might be accused

of interference in internal affairs. I agreed that it would be better to wait, adding that I should not want to see the Shah without the knowledge of the Minister for Foreign Affairs; subject to this (which they clearly disliked) I had no objection to the meeting being kept secret.

4. Shahrush asked me what were the views of Her Majesty's Government regarding the participation of the International Bank in our oil settlement. I replied along the lines of my brief and Shahrush promised to let me have the Shah's views on this in due course.

5. I assured Shahrush that Her Majesty's Government were determined to work hand in hand with the United States Government in Persia. I told him I was already in the closest contact with Mr. Henderson and that I had no objection to him telling the United States Ambassador of his conversation with me. Shahrush looked a little shifty at this saying that the Shah used other channels for his dealings with the Americans.

6. The United States Ambassador has not hitherto come across Shahrush and is inclined to think that this is a personal intrigue of Perron and Shahrush. Until I have seen the Shah it will be difficult to confirm this. Another possibility of course is that the Shah, hopeful of an early oil settlement is anxious to get all the credit for it by keeping the strings in his own hands. In any case I think it most important that I should not start off on the wrong foot with Entezam and unless you dissent, I propose when I see him next week, to give an account of this discussion with Perron and Shahrush.

7. Please see my immediately following telegram.

(4)

Mr. Wright to Mr. Eden. (Received December 26)

(No. 15. Confidential)
(Telegraphic)

Tehran,

December 26, 1953.

My immediately preceding telegram.

Following is text of message handed to me yesterday by Shahrush.

All matters of diplomatic routine including the oil matter should be discussed by you with Minister for Foreign Affairs (Mr. Entezam).

All matters of high policy, i.e., matters above or outside diplomatic routine should be presented to His Majesty through Mr. Perron and myself jointly. Since however the oil matter is of preliminary (sic!) importance in relations with the two countries, His Majesty wishes that after you have made your study and reported to your Government, and have received suggestions on the manner the oil matter should be or could be settled, that you inform through this channel (Perron and myself) His Majesty in advance and before you present them to the Minister for Foreign Affairs you await His Majesty's approval or counter proposal. Thus His Majesty wishes to avoid any serious difficulties arising during negotiations.

His Majesty accepts principles suggested by your Government:—

- (i) that principle of compensation to the Anglo-Iranian Oil Company should stand firm subject to a generous treatment by your Government, and
- (ii) that profits of Persia in oil should not be higher than in other countries of the Middle East though formula must be face-saving for the Persian Government.

With regard to the nomination of your Ambassador, His Majesty is not opposed to your approaching Mr. Entezam for an *agreement* but His Majesty emphatically wishes that:—

- (i) this should be done without much publicity, and
- (ii) that the Ambassador comes when oil negotiations have reached their final stages near a settlement.

His Majesty states as reasons the following:—

- (a) Persian public opinion has already got used to Wright and regard him already with certain sympathy. Thus it would be much easier to conduct negotiations with Wright without a new embarrassment. The Persians would thus keep favourably quiet until the results of the negotiations are known.
- (b) His Majesty wishes to make the best use of the day when the new British Ambassador presents his credentials to His Majesty. His Majesty intends to speak very friendly words which would subsequently switch over Persian public opinion to a friendly spirit *vis-à-vis* Britain.

His Majesty wishes to add to this morning's statement that, in his conversation with Mr. Nixon, His Majesty did not only strongly suggest non-interference in the internal affairs of Persia, but His Majesty also emphatically asked Mr. Nixon, i.e., United States Government, to co-ordinate her policy in and for Persia with the United Kingdom, for otherwise it would be only the Russians who would profit. His Majesty wishes to have real view of your Government on this point and would appreciate any suggestions your Government might have.

On Sunday, December 27, His Majesty will leave, for a holiday of 10 to 12 days, for Ramsar on the Caspian. However an aircraft will stand ready for any message you may wish to convey to His Majesty through this channel.

(5)

*Mr. Eden to Mr. Wright (Tehran)**Foreign Office,
December 28, 1953.*

(No. 7)

Your telegrams Nos. 12, 14 and 15 (of December 26 : Shah's friends). I entirely approve your language and I agree to suggestion in last sentence of paragraph 6 of your telegram No. 14.

(6)

Mr. Wright to Mr. Eden. (Received December 29)(No. 22. Confidential)
(Telegraphic)*Tehran,
December 29, 1953.*

Your telegram No. 7 : The Shah's friends. I saw Minister for Foreign Affairs this morning. He said he was greatly worried by what I told him. He thanked me for being frank with him, approved line I had taken and said he would immediately take the matter up with the Prime Minister and the Shah. He was clearly hurt that the Shah should be thus intriguing behind his back.

EP 15316/127

No. 107

**DISCUSSION WITH PERSIAN MINISTER FOR FOREIGN AFFAIRS
ON THE OIL PROBLEM***Mr. Wright to Mr. Eden. (Received December 30)*(No. 25. Confidential)
(Telegraphic)*Tehran,
December 29, 1953.*

Persian Oil.

I had my first talk this morning with the Minister for Foreign Affairs on the oil problem. He started by saying that although the Persian Government had not yet finally made up their minds they were thinking of a solution along the following lines :—

- (a) Marketing to be done by a consortium of foreign companies in which no single company should have a predominant share. The Persian Government realised that without some such organisation they could not hope to find regular markets for oil.
- (b) Extraction and refining to be done by a Persian company, though the Persian Government realised some foreign assistance would be necessary in order to provide the marketing consortium with guaranteed amount and calculations.

2. Entezam stressed that this question of foreign assistance or management was a very difficult one for them and they were inclined to think that a solution acceptable to Persian public opinion might be found through the intermediary of the International Bank, but I was unable to draw him further on this.

3. I explained that from our point of view the most desirable solution would be the return of the Anglo-Iranian Oil Company, and asked whether he thought this possible. He said that he fully appreciated the position of the Anglo-Iranian Oil Company and Her Majesty's Government desiring to afford them full protection ; nevertheless, he was certain that public opinion in Persia would not tolerate the return of the company and any attempt by the Persian Government to bring them back would greatly embarrass the Government and poison Anglo-Persian relations again. I then sounded him on the possibility of an Anglo-Iranian Oil Company survey party visiting Abadan. After a little hesitation he said he thought this might be possible, but he was obviously not happy with the idea and I did not give him an indication of the size of the party the Anglo-Iranian Oil Company have in mind.

4. I told Entezam that I had no authority to suggest Her Majesty's Government would accept the consortium idea (about which there has been a lot in the Press here lately) but that he should know it would be necessary for the Anglo-Iranian Oil Company to play a major part in any arrangement that might be worked out ; we could not agree to the Anglo-Iranian Oil Company being displaced by other British companies.

5. I stressed our two basic principles of fair compensation and Persia not doing better out of her oil than her neighbours. Entezam said he fully accepted the importance of these principles, but I got no response when I asked how he would reconcile them with the existing Persian laws.

6. I found it difficult to pin Entezam down to details. He claimed that he was not an oil expert and that the Persian Government's ideas were still tentative. I explained my anxiety to explore the oil question as widely as possible and he is arranging for me to see the Prime Minister within a few days. In the meantime it would be useful to know whether I should now try to point out the impracticability of separating the production and marketing sides of any arrangement, since it looks as if Persian thoughts are crystallising on these lines.

7. Entezam was most friendly throughout. He harped briefly on the past (India Office influence in Bahrain and interference by the Anglo-Iranian Oil Company) but was equally critical of past Persian weakness and intrigue which was, he said, largely responsible for Her Majesty's Government's distrust of Persia during recent years. He much hoped that we could now start afresh with mutual confidence on both sides and said that generous treatment on the oil problem would be a great help to this end.

Please pass Saving to Washington as my telegram No. 1.
(Repeated Saving to Washington.)

EP 1015/2

No. 108

THE FORTHCOMING PERSIAN ELECTIONS*Mr. Wright to Mr. Eden. (Received January 5, 1954)*

(No. 1. Confidential)

*Tehran,
December 31, 1953.*

As you will be aware the Shah recently dissolved the Majlis and decreed new elections in both houses (Dr. Musaddiq having abolished the Senate earlier in the year). I now have the honour to report that the Persian Government wish to hold the elections soon and as near as possible simultaneously in all districts. The administrative problem in outlying areas in winter is expected to cause a few weeks' delay, and it seems unlikely that there will be a working Parliament for at least another two months.

2. Over 3,000 candidates are reported to have put their names forward for the 136 seats in the Majlis and the 30 elected seats in the Senate (where the Shah nominates the other 30). They will have to pass the scrutiny of regional electoral commissions under the auspices of the Ministry of the Interior.

3. The local press is showing great interest in the elections. Several newspapers deplore the continued lack of serious political parties in Persia, pointing out that without them democracy cannot exist.

4. The Government appear confident that they can stage the elections without bloodshed. They intend to overhaul the security machine in the interval. So far no additional security measures have been imposed. In fact troops have recently been withdrawn from the grounds of Tehran University where they had been stationed for some time.

5. According to the United States Embassy, the Shah and the Prime Minister are satisfied that they can exercise effective control over the acceptance of candidates by the electoral commissions. But as one newspaper has pointed out, when warning the Government not to abuse their powers, attempts by previous Governments to pack the Majlis have failed. There is a considerable body of opinion here which holds that Dr. Musaddiq and other extreme Nationalists still enjoy a greater measure of popular support than the present régime. The latter may well have as much difficulty as previous Governments in controlling the Majlis, however carefully the candidates are selected and may even find it turning against them.

6. Little has been heard of the Tudeh Party since our arrival. One newspaper reports that they have abandoned hope of insinuating candidates into the lists and have decided to boycott the elections. It seems unlikely that they would give up so easily.

I have, &c.

DENNIS WRIGHT.

EP 1018/1

No. 109

PERSIA : QUARTERLY POLITICAL REPORT*October-December, 1953**Eastern Department,
December 31, 1953.*

Confidential)

When General Zahedi came to power in August 1953 it was uncertain how long he would stay in power, what his policy would be and who would support him. By the end of the year there were fewer ambiguities. General Zahedi was not a caretaker, to be replaced by the Shah's whim or overturned by a Tudeh conspiracy : his policy was to maintain order and to work for an oil settlement ; he had eschewed the support of the anti-Musaddiq nationalists ; and he still relied primarily on the security forces.

2. This clearer picture nevertheless had plenty of shadow in it : the Government were unpopular, and had no obvious achievement of domestic reform to set against the loss of nationalist support. Economically, Persia was dependent on United States aid, which had been used purely to balance the budget, and the cost of living had mounted since Musaddiq fell ; and the Shah, still jealous and suspicious of any strong Prime Minister, had not given the Government his full support or renounced his freedom to intrigue against them.

Internal Affairs

3. At the beginning of the quarter General Zahedi's Government were regarded by many as little more than a stopgap which would not remain long in being. This encouraged the usual Tehran intrigues and the Government faced other serious internal problems, notably the continued existence of the Tudeh, the trial of Dr. Musaddiq, the absence of a workable Parliament and the growing opposition of the extreme nationalists such as Kashani, Baqai and Makki who had broken with Dr. Musaddiq before his fall but were far from being in sympathy with the new régime. In all these problems, General Zahedi had the greatest difficulty in carrying the Shah with him : for the Ruler seemed to have learnt nothing from his narrow escape in August, was still reluctant to give loyal and wholehearted support to his Prime Minister and seemed always ready to exploit opportunities of weakening the latter's position.

4. The Government renewed their efforts to suppress the Tudeh, making little distinction between supporters of that party and those of Dr. Musaddiq, whose champions the Tudeh claimed to be and with whose remaining supporters they were co-operating. A further 200 persons were arrested on October 1. On October 4 a communiqué gave the military courts extensive powers to deal with Communist activity and disorders in the University and the Bazaar were firmly suppressed. Martial Law was applied to the whole of the railway system. On October 20 three ratings of the Navy were shot as saboteurs and two days later Martial Law was declared throughout Khuzistan. On November 3, after an alleged plot to assassinate the Shah, 300 more persons were arrested, including 30 Naval officers and ratings. The Tudeh and Dr. Musaddiq's supporters concerted a final effort to organise strikes and demonstrations on November 12 after Dr. Musaddiq's trial had begun, but were routed by strong security forces.

5. Relative calm followed. The campaign against the Tudeh had not been fully successful, since the leaders had as usual escaped and there were still many Tudeh members in Government Departments and the armed forces. But the Party nevertheless had suffered a definite reverse, which was later identified by its failure in December to create serious disturbances during the visit of the Vice-President of the United States. Even if its hard core remained untouched, its overt activities were virtually at a standstill.

6. The Government were less successful in other directions. The Shah refused at first to dissolve the Majlis, 23 of whose members had never resigned ; and General Zahedi himself apparently believed, perhaps naively, that he could govern more effectively with the support of a legislature than without it. Sporadic parliamentary activity began with a meeting of the 23 members of the Majlis on October 1. Naturally enough they opposed a dissolution, and the Prime Minister himself preferred to increase the Majlis to 80 by holding elections in those 57 constituencies where elections had not been completed in 1952. But the simultaneous informal meetings of the Senate (which the Shah had dissolved at Musaddiq's behest) aroused much opposition ; and the revival of political activity emphasised the dangers of leaving the nationalist demagogues with their parliamentary immunity, which would end only with a dissolution.

7. These men (Kashani, Makki and Baqai) were already beginning to constitute a new National Front. They were not yet in avowed opposition but were prepared to pounce upon any deviation from a "national" policy, particularly in the spheres of oil and foreign affairs. "Shahid" the newspaper of Dr. Baqai and his "Toilers Party", was now in effect the only opposition paper, all others having been either physically destroyed by the Shah's supporters on August 19 or suppressed immediately after. At first General Zahedi treated the nationalist leaders gently, although he acted firmly against any of their supporters who disturbed the peace. In particular Kashani, with whom he had been in close contact in the days of their common opposition to Dr. Musaddiq, was treated with some respect and allowed time on Tehran's radio to propound his anti-British views.

8. The Government's rift with the nationalists became complete over the resumption of diplomatic relations with the United Kingdom. Kashani first pleaded with, then threatened, the Government and finally called for a day of public mourning. Dr. Baqai and his newspaper "Shahid" went into open opposition. Except however for some University rioting, which was again firmly suppressed, there was no popular reaction. The suppression of "Shahid" left no overt opposition newspaper and General Zahedi at last persuaded the Shah to dissolve the Majlis, in a decree of December 17 which also dissolved the Senate, whose previous dissolution was conveniently overlooked. The Government immediately set about staging elections, but ran at once into difficulties with the Shah and his relations over the nomination of candidates.

The trial of Dr. Musaddiq

9. The trial was repeatedly postponed. The Shah as Head of the Armed Forces claimed full control of the Military Court and insisted on a public trial. Despite the Government's repeated attacks Dr. Musaddiq's halo survived and the press reflected a widespread opinion that despite his failure he had led a "noble experiment".

10. The trial eventually began on November 8. After the first few days, during which the Prosecutor made an effective case and the President kept control of the Court, the proceedings degenerated, apparently as an effect of the Shah's solicitude for a fair trial ; Dr. Musaddiq shouted, wept and fainted his way through interminable declamations, threatening hunger strikes and occasionally kicking his lawyer. His defence, in so far as he made one, was that legislation he himself had promulgated rendered the court incompetent to try him, that he had believed the Shah's *firman* of dismissal to be a forgery and that the Shah could not dismiss him without Majlis approval. As the trial was concluding, on December 21, the Shah again intervened with a published letter forgiving Musaddiq for his crimes in view of his earlier services to the nationalisation campaign which, the Shah declared, he himself still supported. The Court sentenced Musaddiq only to three years' solitary confinement. Brigadier Riahi, the former Chief of Staff who was tried with Dr. Musaddiq, was sentenced to two years' detention and dismissal from the army. Both immediately appealed.

Relations with Her Majesty's Government and the oil question

11. These two related problems were, naturally, the principal foreign preoccupation of the Persian Government, who showed at first little readiness to grasp either nettle. The United States Government, however, through their Ambassador at Tehran, impressed on the Persian Government that an early oil settlement was essential to the health of Persia's finances and that to reach one, and to restore her international position, she should resume relations with Her Majesty's Government as soon as possible. The Persian Government, afraid of the still strong anti-British feeling, were inclined to want an oil settlement (or at least some understanding on oil) before a resumption of relations, while Her Majesty's Government preferred first to resume relations : that course was desirable on its own merits, and would facilitate oil talks.

12. Accordingly the Secretary of State sent on October 9 a private message urging an immediate resumption (in reply to a Persian Court enquiry whose exact source was not clear) and on October 20, in Parliament, offered friendship and resumed relations.

13. Meanwhile, with the full agreement of Her Majesty's Government, the State Department's Oil Adviser, Mr. H. Hoover, Jnr. had reached Tehran on October 17, in order to discover what solution to the oil question the Persian Government had in mind and to explain to them the facts of the world oil situation. The second task proved the easier. The Persian Government began to realise that the world was not crying out for Persian oil, that it could be sold only by the big companies, and that the latter would not pay more for it than for other Middle East oil. But Persian ideas on a settlement proved extremely vague and impractical, nor did the Government, or the advisers they had summoned, accept the need for foreign management of production.

14. On leaving Tehran (November 3) Mr. Hoover visited London and found Her Majesty's Government preoccupied with the diplomatic side of the problem. The Persian Government in a message of October 30 had urged the need for some progress at least towards an oil settlement before Persian public opinion would accept diplomatic relations : perhaps an unofficial British emissary might visit Tehran for the purpose (an infelicitous and unacceptable suggestion apparently emanating from the Swiss Minister in Tehran). In a reply dated November 14 the Secretary of State undertook to consider ways by which Her Majesty's Government could render a diplomatic resumption less unacceptable to Persian public opinion ; and ten days later he sent to Tehran a draft communiqué. This, after announcing the resumption of relations, would express Her Majesty's Government's confidence that thereafter an oil settlement could be reached which would be just and honourable and take account of Persian "national aspirations". The Persian Government still hesitated ; but internal law and order were now such as to increase their self-confidence, there was an encouraging reference by Her Majesty's Government to nationalisation in a Parliamentary answer on November 25, and, above all, Mr. Henderson, the United States Ambassador, continued unremittingly to press them to accept Her Majesty's Government's proposal. Eventually, after securing rather perfunctory approval from a group of "elder statesmen" and the rump Majlis, they agreed to the issue of the communiqué on December 5. Mr. D. A. H. Wright, Her Majesty's Chargé d'Affaires, thereupon reached Tehran on December 21 (his conversations with the Persian Government had hardly passed the ceremonial stage by the end of the year, and nothing more will be said of them in this report).

15. Meanwhile Her Majesty's Government had been considering, with the Anglo-Iranian Oil Company and the United States Government (represented by Mr. Hoover) what to do next about oil. The crux of the problem was the position of the Anglo-Iranian Oil Company. Mr. Hoover and the United States Ambassador at Tehran had reached the conclusion that the Persians would never again put their oil into the hands of that Company, however disguised. Her Majesty's Government had no reason to disagree, but they owed it to the A.I.O.C. (who tended to suspect the United States' authorities of interested motives) and to British opinion to see for themselves, through the reports to be sent by the Chargé d'Affaires, before deciding to work towards the multi-national consortium advocated by Mr. Hoover. Mr. Wright's instructions (Foreign Office despatch to Tehran No. 2 of December 17, 1953) were drafted accordingly.

16. It was fairly clear, however, what the tenor of Mr. Wright's reports on this point would be ; and in order that a consortium solution, once decided in principle, should not be unduly delayed, the A.I.O.C., with the full approval of Her Majesty's Government, began on December 14 hypothetical and exploratory talks with the other main oil Companies who might enter the group.

Other Foreign Relations

17. The relations of the United States Ambassador with the Persian Government remained extremely close ; indeed, he was frequently called upon to mediate between the Shah and his Prime Minister. The visit to Tehran of the Vice-President of the United States from December 7 to December 9 was a success. General Zahedi also reversed Dr. Musaddiq's policy of squabbling with his immediate neighbours, and Persia's relations with Iraq and Turkey improved.

18. Although Communist propaganda consistently attacked General Zahedi, he maintained as correct relations with the U.S.S.R. as possible, though both Governments had occasion to complain of the other's Press. Perso-Soviet negotiations "for a settlement of outstanding differences" were resumed at the end of the year but made no progress.

Economic

19. The grant in September of \$45 million of United States aid to Persia, over and above assistance under "Point Four" and other programmes, had just averted a serious financial crisis. At one time in October it appeared that the Bank Melli might have to close its doors, but the danger passed as United States aid and a good harvest took effect. The American aid was chiefly used, through sales of dollars for rials, to balance the ordinary budget ; and some dollars were used as cover for an additional note issue. But at least part of the rial equivalent was devoted to a programme of public works designed to reduce unemployment. The Shah resumed the distribution of Crown lands which Dr. Musaddiq had interrupted, and the Government began a similar distribution of State lands.

20. The Government's exchange policy was unwelcome to merchants who had profited from the *laissez faire* of Dr. Musaddiq, since his steady devaluation of the rial had stimulated exports and provided revenue for the producers of export commodities. General Zahedi's Government revalued the rial, in order to encourage purchases of United States aid dollars and thus to bring in cash. Despite resistance from merchants the Government were able to restore the cash holdings of the Bank Melli, which ended the year in a stronger position than at any time since 1951.

21. On November 8 the French Government granted a credit of Fr.5,000 million for engineering goods to be supplied to the Seven Year Plan. A credit of up to \$60 million was reported to have been offered by a group of German business men with possible further credit up to \$200 million. Her Majesty's Government were able to offer delivery on long-term credit of 24 locomotives which had been on order to the Persian Railways in 1951. A decree designed to encourage foreign investment was promulgated on December 17.

22. The Persian economy was thus tided over a period of considerable danger, but Persia continued to live on charity. It was clear that within a few months she would face another economic crisis unless she secured more United States aid or an oil settlement capable of bringing her substantial revenues.

CHAPTER II—PERSIAN POLITICAL SUMMARIES

EP 1017/1

No. 110

POLITICAL SUMMARY

Period December 1952-January 1953

Eastern Department,
February 11, 1953.

(Confidential)

Foreign Affairs

Foreign Affairs took second place during the period under review.

2. Relations with the United States were disturbed by discourteous and violent speeches made by the powerful Deputy Makki, who, on his return from a tour of the United States as guest of the Administration and of the International Bank, attacked the United States Government and Mr. Acheson in particular. There was some criticism in the Majlis of the Point IV organisation and sporadic demonstrations against its employees, besides a continual barrage of anti-Point IV propaganda in the Tudeh press.

3. The Soviet-Persian Agreement on the Caspian Fisheries was due to expire at the end of January. In mid-December the Deputy Zulfiqari, who had fought against Azerbaijani forces in 1946, alleged, reportedly on the basis of material supplied by the Persian General Staff, that the Caspian Fisheries were being used for Soviet espionage and subversion. In prompt reply to a Soviet Note whose contents were not made public, the Persian Government on 27th January declared that they would not renew the concession but would avail themselves of the provisions of the Agreement whereby the assets of the joint Persian-Soviet Company which at present exploits the Fisheries are to be divided between the two Governments, the land they occupy being returned to Persia.

4. It appeared that the Persian Government were somewhat embarrassed by the campaign led by Kashani for Islamic and "anti-imperialist" solidarity. No definite date was fixed for his proposed Pan-Islamic Congress and his call for a nation-wide stoppage of work in sympathy with the rioters in Iraq was not followed by Persian Government departments. However, the Persian Government were unable publicly to dissociate themselves from Kashani's various "anti-imperialist" initiatives (for example, his messages to the United Nations and to the World Peace Conference in Vienna). The Minister for Foreign Affairs replying to Arab suggestions that Persia should join the Arab States in their campaign against Western Germany, pointed out that the Arab States had given Persia little help with her own nationalist aspirations.

Oil

5. The United States Government's long-awaited statement about sales of Persian oil, issued on 6th December, made it clear that the United States Government could not and would not prevent sales of Persian oil before the oil dispute had been settled, but pointed out that such sales were no substitute for an oil settlement which alone was capable of reactivating the Persian oil industry. The Persian Foreign Minister met this statement with urbanity and only regretted that the United States was still giving economic support to Britain.

6. The visit of Mr. Byroade to London and Mr. Henderson's impending return to Tehran were the occasion of intensive Anglo-American discussions on the next step to be made in the oil dispute. The United States Government were dissuaded from abandoning the Joint Proposals put forward in August in favour of a plan for lump-sum compensation and for unconditional financial help, should a settlement be further delayed. The two Governments finally agreed to seek Persian agreement to international arbitration on compensation, to the payment (subject to certain conditions) of \$100 million as an advance on purchases of oil by a United States Government Agency and to a Persian undertaking to enter into a long-term sales contract with a new "international company" in which the A.I.O.C. would participate—the whole to be regarded as a "package".

7. Mr. Henderson returned to Tehran on 23rd December and had a series of meetings with Dr. Musaddiq, in which two major objections previously raised by the latter appeared to have been overcome. Dr. Musaddiq agreed that the loss of future profits could be taken into account in fixing compensation for the A.I.O.C. and that Persia would be prepared to negotiate for the sale of oil to the proposed "international company" on commercial terms. Thereafter, intensive preparations were made for the formal presentation of the new proposals and the Persian-British negotiations which it was anticipated would follow. Dr. Musaddiq, however, soon began to back out. He objected to linking the proposed sale of oil to the United States Government to a long-term contract with the proposed "international company". He refused to include loss of profits in the terms of reference for arbitration, though, characteristically, he also said that he might agree if some limit were first fixed on the total compensation to be awarded. Mr. Henderson, who had evidently staked a lot on the negotiations and had been responsible for various changes in the original proposals to ensure (as he thought) that Dr. Musaddiq accepted them, confessed himself discouraged. Although one essential feature of the new proposals—the linking of oil purchases by the United States Government with a long-term contract—had leaked from Washington to Tehran before Mr. Henderson's return and there been criticised, there was surprisingly little publicity or public excitement in Tehran. This was interpreted in Washington and London as a favourable sign.

8. The second foreign tanker to visit Abadan, the Italian s.s. *Miriella*, arrived in Abadan on 20th January and sailed the next day with a cargo of oil. It was at first (incorrectly) believed that this cargo was ultimately destined for Poland. This alarmed the United States Government who made strong representations to the Italian Government.

Internal Affairs

9. The quarrel between the Government and the Majlis which arose from an abusive speech by Dr. Baqa'i at the end of November on the question of measures to be taken against Qavam-us-Saltaneh was eventually settled on 4th December when the Majlis gave Dr. Musaddiq a vote of confidence. The reconciliation did not last long. A week or two later there arose a controversy over the appointments of Dr. Fallah, a former employee of the A.I.O.C., as refineries manager at Abadan and of General Daftari, Chief of Police under Razmara, as Head of the new Customs Police. Dr. Baqa'i, and those who had supported him in his previous disagreement with the Government, again violently criticised it, and Makki, who had been

appointed a member of the Supreme Council of the N.I.O.C., resigned from that office. On Christmas Day there were violent scenes in the Majlis. Kashani himself was ill and absent, but his partisans joined in the attack on the Government.

10. A fresh cause of discord was the new Electoral Law. The Majlis were particularly concerned lest its provisions should be used to suspend the present Majlis. On 4th January a resolution was tabled in the Majlis calling on the Government not to use the Prime Minister's full powers to dissolve the present Majlis. Next day Dr. Musaddiq broadcast a violent speech, attacking the sponsors of this resolution as foreign agents and duly received a vote of confidence.

11. He followed up this success on 8th January by requesting an extension of his full powers for a further year. This provoked furious opposition, not only from Dr. Baqa'i and his friends but also from Kashani, who on 18th January sent a letter to the Majlis declaring the proposal unconstitutional. Makki threatened to resign his seat in the Majlis. Mussadiq, however, was able to put the whole machine of "public opinion" (telegrams from the provinces, meetings in telegraph offices and so on) into operation and in a broadcast asserted that these full powers were necessary for his oil negotiations. On 19th January the Government secured a vote of confidence by 59 votes to 1, with 6 abstentions. Kashani thereupon addressed a second letter to Dr. Musaddiq, pointedly reminding him of his previous opposition to the delegation of power from the legislature to the executive, and stressing the dangerous precedent set up. In a broadcast on 22nd January, Dr. Musaddiq pointed out that all legislation promulgated under his full powers was subject to Majlis approval within three months. On the 27th Musaddiq and Kashani issued a joint statement stressing the need for unity in the national cause.

12. The rift within the National Front had thus been at least covered over for the time being, but it had lasted for two months and produced a consistent line-up of forces on both sides. The opposition had been led by Dr. Baqa'i and included Kashani and his lieutenants. Dr. Musaddiq was supported by Dr. Shayigan, by the Iran Party and by Maliki and his "Third Force," a split from Dr. Baqa'i's party. Makki, unwilling to compromise his influence with either side, sat consistently on the fence, and was absent from the Majlis when the final vote of confidence was taken. Neither side attempted to secure Tudeh support, and Baqa'i and Kashani's lieutenants had spoken out against the Tudeh. Kashani's personal attitude to the Tudeh Party had, however, remained equivocal.

13. The Tudeh Party have been marking time during these two months and their demonstrations have not been notably successful. They could not secure much support for anti-Government demonstrations on "Azerbaijan Day" (12th December). But their newspapers continue to appear in spite of the new and more stringent press law, which was passed at the beginning of December. Their propaganda has followed the stock lines—attacks on American influence in Persia and particularly on Point IV, and on the Government as an American tool, suppressing the "popular masses" with its legislation. In their campaign against the internal security law and the press law the Tudeh were on common ground with Baqa'i and his followers, but the Party do not appear to have made any serious attempt to profit by the dissensions in the National Front and Tudeh newspapers attacked both factions indifferently as "two wings of the ruling clique". It was notable that the Tudeh vigorously supported the feminist "votes for women" campaign, though they thus forfeited the sympathy of the Kashani faction. However, it does not appear that any such attacks were made on the person of Kashani and one pro-Tudeh paper took the occasion to praise his "anti-imperialist" past.

14. A message from Kashani was read at the Vienna Peace Conference where Persia was represented by, among others, two Shia divines. On the return of the delegation, one of these divines was met at Qum with some hostile demonstrations and was exiled to Shiraz.

Economic Affairs

15. According to information given in confidence to United States sources the addition to the note circulation over and above the previously authorised total was, at the end of 1952, 1,500 million rials, one-third of which was held in the note reserve. The Government continue to deny reports, in connection with the mission of Monsieur Gutt, that additions to the note issue were being contemplated. The Persian economy may now be reaching the point where inflation will no longer be masked by large stocks of goods and indeed the Bank Melli have already taken the deflationary step of selling gold on the open market.

16. The Budget for the next Persian financial year which begins on 21st March, 1953, was presented at the beginning of January. Although the Minister of Finance announced in the Majlis that the contemplated deficit was only 54 million rials, the detailed figures published on 5th January would appear to show a much larger deficit, receipts being only 75 per cent. of expenditure. Figures of foreign trade for March—November 1952 published by the Persian Government on 29th December show a visible deficit of only 160 million rials (approximately £1,600,000). These figures taken together confirm the impression that it is the internal rather than the external balance which has suffered from the stoppage of foreign oil sales.

MONTHLY SUMMARY

Period February 1953

Eastern Department,
March 17, 1953.

(Confidential)

The United States Ambassador again put forward proposals for the settlement of the oil dispute agreed between the United States Government and Her Majesty's Government: but the Persian Prime Minister once more started to go back on his previous statements. His failure to reach a settlement began to weaken his internal position and there was such open resistance to him that he narrowly escaped a fall at the end of the month.

Foreign Affairs

2. On 2nd February the Soviet Embassy in Tehran replied to the Persian note about the Caspian fisheries, accepting the Persian refusal to renew the concession but stressing the benefits conferred by it on Persia and drawing attention to the provisions which prevent Persia's giving the concession to any other foreigners or employing them in it for a period of twenty-five years. Both the Soviet and Persian Governments at once nominated representatives to discuss the liquidation of the company, but by the end of February no offers had been made by the Soviet side to buy Persian fish, which was reported to be piling up unmanageably. The Soviet Government contributed on a generous scale to alleviating distress caused by the earthquake and to the current anti-locust campaign.

3. The United States Government found themselves in hot water when the *New York Times* secured the text of a private letter to the State Department from a retired United States diplomatist, who suggested the establishment of an independent State in South Persia with a Western orientation. It was quite easy for the State Department to reply that the writer had no longer any official position and had written in his private capacity, but less easy to explain why the item had been carried on the "Voice of America."

4. There were reports of friction on the Persian-Iraqi frontier in Kurdistan and a clash involving loss of life on 6th February. The Persian Minister for Foreign Affairs protested to the Iraqi Embassy.

Oil

5. Dr. Musaddiq, having as good as rejected the offer made to him in January, began to make American flesh creep with hints of what he would do failing a more palatable proposal. He would sell oil at a 50 per cent. discount: he would even sell it to anybody at any price he could get. These threats, coupled with the greater number of tankers now available to carry Persia's oil, were not without effect on the United States Government. They pressed Her Majesty's Government to follow up Musaddiq's suggestion, referred to in paragraph 7 of the last political summary, that he might consider including future profits in the terms of reference for arbitration if some ceiling could be put on the compensation award commensurate with Persia's ability to pay. Eventually, Her Majesty's Government agreed that Mr. Henderson could put to Dr. Musaddiq, as an alternative to the original proposal of 15th January, a new suggestion designed to limit the period over which compensation would be payable and to allow the Persians to pay it partly in oil. The United States Government, for their part, undertook to support these proposals fully and to disengage if Dr. Musaddiq rejected them. When the proposals were submitted to him on 20th February, he blithely ignored his previous undertaking, objected strongly to the terms of reference for arbitration, and later even had the audacity to protest against the mention of a United Kingdom Nationalisation Law—an idea which he had himself originated. Later (23rd February) he attempted to start a new hare by a proposed redraft of the terms of reference, but without being prepared to state that, if he were met on this, he would accept the rest of the proposals as they stood. Mr. Henderson gave him practically no encouragement. A specimen of Persian "counter-claims" was given by a report that the Persian customs calculated the duty due from the Anglo-Iranian Oil Company at about £70 million.

6. On 14th February the Italian tanker s.s. *Miriella* unloaded her cargo of furnace oil at Venice. Legal representatives of both parties to the dispute were awaiting her, and the Anglo-Iranian Oil Company succeeded in immobilising the oil pending the hearing of an application for its judicial sequestration.

Internal Affairs

7. The split among Musaddiq's supporters which had opened so wide in January proved to have been temporarily covered over. Early in February a number of Deputies who had opposed Musaddiq before resigned from the parliamentary group of the National Front and Kashani made it plain that he had not abated his opposition to Dr. Musaddiq's full powers. The two parties were clearly ranged against each other in the debates on prohibition, on which Kashani's supporters insisted; Government spokesmen referred to the prospective loss of revenue (about £2½ million a year) and enjoined caution: but the Bill passed the Majlis on 8th February. The discontent of two other groups became politically important—the army officers, nearly 1,200 of whom have now been forcibly retired since July 1952, and the civil

servants, whose salaries and positions Musaddiq was menacing. The officers' grievances were voiced in the Majlis by, among others, Mr. Mir Ashrafi, who is held to speak for the Court ; and on 22nd February the Majlis debated the grievances of the civil servants with resultant disorder and uproar. Meanwhile, fighting had broken out in Khuzistan between Government forces and a dissident Bakhtiari chief and his followers.

8. In the middle of the month rumours began to circulate that Dr. Musaddiq's oil negotiations were about to break down and at once weakened his position. The over-ambitious General Zahedi seems to have been very active in promoting opposition, encouraged possibly by the Shah or some members of his entourage. At any rate, this was what Dr. Musaddiq affected to believe and from about 19th February onwards the Government propaganda machine launched a full-scale attack on all those opposing Dr. Musaddiq, as foreign agents and saboteurs of the oil negotiations, and on the Court in particular. A more definite quarrel was picked with the latter by Government pretensions to appropriate Crown property. Dr. Musaddiq perhaps calculated that he would soon intimidate the Court, whose capitulation would discourage the others. In a long audience with the Shah on the 24th he evidently threatened to resign and secured an undertaking by the Shah to leave the country, for a time at least. The Shah's intention was kept secret until the morning of 28th February (the day of his intended departure). As soon as the news reached Kashani (according to newspaper reports, in a letter from the Shah) he summoned an emergency meeting of the Majlis and soon had demonstrators on to the streets clamouring professions of loyalty, until the Shah announced that, in deference to public opinion, he would not go on his proposed journey. The mob then, under the leadership of certain retired army officers, repaired to the house of Dr. Musaddiq, who considered himself threatened and took to flight in his pyjamas. His confidence returned over the next couple of days and by 3rd March it was clear that Kashani and the elements that had supported him had suffered a reverse. The Tudeh had taken the occasion to demonstrate against the Shah, but Dr. Musaddiq's supporters had in the main rejected their alliance, and as soon as order was restored there were widespread arrests of Tudeh partisans, as there were of dissident army officers.

9. On 12th February there was an earthquake at Torud (near Shahrud, about 300 miles east of Tehran), which was reported to have cost over a thousand lives.

Economic

10. It does not appear that the budget mentioned in paragraph 16 of the last summary has yet been discussed by the Majlis. Meanwhile, the Persian Government has still not officially admitted to the issue of notes over the authorised total : but the Governor of the Bank Melli, who on 2nd February denied any such issue, later admitted that the Gutt mission had recommended an increased note circulation, while adding that the bank would not encourage inflation. Newspapers reported a decision to add 1 billion rials to the circulation. Inflation, in fact, continued, and both gold and foreign exchange increased in rial value by roughly 6 per cent. over the month. The Bank Melli stopped selling gold on 16th February, which naturally raised gold prices, and adverse reports of the oil negotiations (and the immobilisation of the *Miriella's* oil) affected foreign exchange rates.

11. It was announced that rail-laying would begin in the New Year (after 21st March) on the Tabriz line from Mianeh to Maragheh, which should be completed in four months. Thereafter, rails would be laid (when available) on the Meshed line from Shahrud to Nishapur.

12. Dr. Fatimi announced that Mr. Abul Hassan Ibtihaj, lately Persian Ambassador in Paris, would be prosecuted for an alleged dereliction of duty during his governorship of the Bank Melli, when sterling was devalued. Mr. Ibtihaj is, in fact, no less fervent, though more intelligent, a nationalist than Dr. Musaddiq, and the motive of this attack is probably political and personal dislike. He and his wife were close to Princess Ashraf, and his quick temper, uncompromising honesty and somewhat autocratic behaviour have long made him unpopular with politicians.

EP 1017/3

No. 112

MONTHLY SUMMARY

Period March-April 1953

Eastern Department,
May 7, 1953.

The period has seen a continuation of the internal struggle for power between Dr. Musaddiq and his opponents, a struggle which has expressed itself principally in the quarrel between the Prime Minister and the Shah, and is not yet resolved.

Internal Affairs

2. The present phase of this struggle for power dates from February 19 (paragraph 8 of the Monthly Summary on Persia for February 1953 ; EP 1017/2), when Musaddiq chose to bring his long-smouldering quarrel with the Shah to a head. His previous toleration of the Shah was prompted by political opportunism. There is, however, little doubt that he has

consistently been trying to undermine the Royal authority and prestige. So long as the elements surrounding the Palace were composed of those whom his National Movement had eliminated, or was threatening to eliminate, from public life, or of those who held it to be in Persia's interests to side with the West, Musaddiq probably did not consider it wise to break openly with the Court. But when National Movement politicians such as Kashani and Makki, who are strongly xenophobe, and who had hitherto supported him, also began to turn towards the Court, it became a different matter, and he began to fear that at a suitable moment the Shah would turn against him. In the difficult position of having to reject our latest proposals of February 20 for an oil settlement, Musaddiq probably thought it safer first to demolish the Court, thus abolishing what he thought to be the centre of opposition to him, before breaking off oil negotiations.

3. His plan cannot so far be said to have fully succeeded. Having tried, and failed, to obtain a quick vote of confidence at the beginning of March, he headed off further opposition in the Majlis by ensuring that the absence of his supporters prevented a quorum. A conciliation body, known as the " Committee of Eight ", was then set up, consisting of both Government and Opposition deputies. At a closed session of the Majlis on March 12 the Committee of Eight presented a report on its efforts to settle differences between the Court and the Government. This report stated that, since it was the Government rather than the Shah which had responsibility for the running of the country's affairs, " it is evident that responsibility for the administration of the civil and military affairs of the country is not within the dignity of the Sovereign ". When the Government sought to have the report considered in an open session the Opposition, using Musaddiq's own weapon, left the Majlis, thus bringing the sitting to a close through lack of a quorum. The Opposition, though not truly united, have continued to refuse to let the report be debated in the Majlis, while Musaddiq is apparently still determined to bring it to a vote as a test of his strength. On April 6, broadcasting to the nation on his relations with the Shah, he called for approval of the report, and attacked the Court and the Opposition. The Minister of Court defended the Shah in a press statement on April 7. The Opposition have riposted by carrying on a " war of nerves ", including the circulation of rumours about Musaddiq's death or resignation, attempts to raise embarrassing questions in the Majlis about his full powers and the extension of martial law in Tehran, and even on one occasion open criticism in the Majlis of the Government's handling of the oil dispute.

4. Musaddiq in turn succeeded in forcing the Shah's Minister of Court, Hussain Ala, to resign on April 23, thus removing an opponent who has striven hard to stiffen the Shah's resistance to the Prime Minister's attacks on the position of the monarchy.

5. A further stage in the struggle was reached with the murder at the end of April of the pro-Musaddiq Chief of Police, General Afshartus. Musaddiq can be expected to use this as a pretext further to attack his opponents ; in particular he has ordered the arrest of General Zahedi, who was openly spoken of as his successor, and who indeed has, in recent weeks, been the rallying point for various Opposition elements. General Zahedi has taken refuge in the Majlis, an action which may well bring about a crucial test of strength between the Opposition and the Government.

6. On April 6, the administration of tribal affairs was by decree transferred to the Ministry of the Interior from the army. Nothing appears to have been done so far to implement the decree, which would appear to be part of Musaddiq's campaign to draw away support from the Shah and to concentrate as much power in his own hands as possible.

Oil

7. On March 20, after several false starts, Musaddiq eventually announced his refusal to accept the proposals for an oil settlement handed to him by the United States Ambassador at Tehran on February 20. He refused again to allow the terms of reference, on the basis of which the International Court of Justice would assess compensation, to be framed so that the court would be free to take into account the loss of the company's 1933 agreement. There is no doubt that Musaddiq was apprehensive of the effect which a rejection of the proposals might have on his political position, and he has since March 20 tried, by summoning the United States Ambassador to discuss various small matters, to give the appearance that the oil dispute has not reached stalemate. For the same reason he has tried to discount the Anglo-United States communiqué from Washington of March 7 which described the proposals of February 20 as " reasonable and fair ".

8. The decision of a Venice court on March 11 not to grant the Anglo-Iranian Oil Company's application for judicial sequestration of a cargo of Persian oil unloaded there on February 14 from the Italian tanker *Miriella* was joyfully received in Government circles in Tehran, who have used it to the full to strengthen their political position. The main case on the ownership of the oil comes before a Rome court on May 19. The *Miriella* arrived in Venice with a second cargo on April 10, and another Italian tanker, the *Alba*, discharged 10,000 tons of Persian crude oil at Leghorn on April 8.

9. A Japanese tanker, the *Nissho Maru* sailed from Abadan for Japan with a cargo of petrol and gas oil on April 13. The Anglo-Iranian Oil Company intend to take legal action when the vessel arrives at a Japanese port. Her Majesty's Government are in close touch with both the Italian and the Japanese Governments about these deals.

10. It was announced on April 27 that for a period of six months oil would be sold to Japan and the United States against United States dollars at a discount of 50 per cent. It had already been announced on April 12 that the Supor Company would be given a discount of 50 per cent. on oil carried in the next six months as a mark of the Government's gratitude for the company's success in shipping oil in the *Miriella*.

Foreign Affairs

11. The Soviet-Persian Commission set up to liquidate the Caspian fisheries does not appear to have made progress. It is reported that the Soviet members have received instructions to make proposals for the purchase of fish and fish products. Press speculation on the likelihood of a Soviet-Persian rapprochement as a result of a satisfactory settlement of the Caspian fisheries question and as a counter to "American support of Great Britain", evoked a statement by the Minister for Foreign Affairs at a press conference on April 7 that there was no change in the Government's foreign policy, which was "based on reciprocal friendly relations with all countries and on the preservation of Persia's rights".

12. A Persian protest to the Iraqi Government on March 9 about the alleged existence of a British espionage centre at Bagdad called forth a statement by an Iraqi official at a press conference on March 15 that such reports were totally unfounded.

13. On April 15 a mob stormed and sacked the Shiraz office of the United States Technical Co-operation Administration. No United States lives were lost although United States citizens had an uneasy thirty-six hours, several of which were spent in the Garden of Heaven, a villa on the outskirts of the town where they had been forced to take refuge. A strong protest by the United States Ambassador produced abject apologies from the Prime Minister, who claimed that the mob had been incited by "British agents".

Economic

14. The Government have continued to meet their monthly wage bills, mainly by drawing on the Issue Department of the Bank Melli and on loans from other Government funds. Prices are beginning to reflect the inflationary effect of the extra note issue, but competent Persian officials are of the opinion that the position will not get out of control for nine or twelve months.

15. A Japanese trade delegation of officials and business men on a tour of the Middle East visited Tehran at the beginning of March. The delegation's spokesman said their purpose was to lay the foundations for future commercial relations as part of the forthcoming resumption of diplomatic relations between Japan and Persia.

EP 1017/4

No. 113

MONTHLY SUMMARY

Period May 1953

(Confidential)

Eastern Department,
June 16, 1953.

Internal Affairs

The struggle for power between Musaddiq and his opponents (paragraph 1 of the Monthly Summary on Persia for March-April 1953, EP 1017/3) continues. It flared up at a Majlis meeting on May 10. Government supporters, trying to force through the report of the "Committee of Eight", which would strengthen Musaddiq's, and diminish the Shah's, control of the armed forces, ran into a barrage of interruptions from the Opposition, who succeeded in bringing the meeting to a disorderly close. A week later, however, the Government, perhaps becoming sensitive to Opposition charges that they were not allowing the Majlis to operate in a democratic manner, allowed prominent Opposition Deputies to make speeches strongly attacking Musaddiq.

2. Outside the Majlis, Musaddiq has fared better. On May 9 he forced the Shah to transfer the Royal estates to the Government, a project which has long been dear to him, as a large landowner, as a way of holding up the Shah's plans for the distribution of Crown lands to the peasants. He was assisted in this by Amini, the newly appointed Acting Minister of Court, who is of less support to the Shah than his predecessor, and who is mainly concerned to advance the interests of the powerful Amini family. With this victory over the Shah, Musaddiq can be said to have won his battle with the Court. He has stopped all contact between the Shah and the army, he has virtually exiled the members of the Royal family, he has got rid of the former Minister of Court, Husain Ala, and has, at least temporarily, rusticated the Shah to the Caspian whence he returns to the capital from time to time only to carry out formal duties.

3. The publication of a decision of the Civil Courts to acquit twenty-three Tudeh leaders who had been condemned by a military court four years ago caused a sensation in political circles. The Opposition seized on this as proof of an understanding between Government and the Tudeh Party, and several pro-Government newspapers have not hesitated to join in these attacks. In the face of this, the public prosecutor on May 18 made a statement disclaiming any foreknowledge by the Government of this decision by the civil courts, and adding that the Government continued to regard the Tudeh Party as illegal. This was followed by another statement by Fatemi, the Minister for Foreign Affairs, assuring the public that the decree issued five years ago, making the Tudeh Party illegal, still holds good. The Government found it necessary to inspire a third and similar statement by the Minister of Justice on May 23 in order to allay wide public anxiety.

Oil

4. In an interview with the United States Ambassador on May 31, prior to his departure for Washington on a month's leave, Musaddiq said he was no longer interested in a settlement of the oil dispute, and made it clear that in his view no settlement acceptable to the Persian people was possible at the present time, in view of the British attitude on compensation.

5. On May 27 a Tokyo court rejected an application by the A.I.O.C. for the judicial sequestration of the oil unloaded from the Japanese tanker *Nissho Maru*. The A.I.O.C. are appealing against this decision. The Japanese Government have undertaken neither to grant allocations for foreign exchange for Persian oil from May 1, nor to permit barter deals involving Persian oil. The *Nissho Maru* is however, now making a second voyage with oil purchased from a dollar allocation made prior to this undertaking.

Foreign Affairs

6. Mr. Dulles did not visit Persia on his recent tour of the Middle East, but was joined in Karachi by Mr. Henderson, the United States Ambassador at Tehran. The latter, on his return, issued a statement on Mr. Dulles' behalf, expressing regret that he was not able to visit Persia, sympathy for the struggles of the Persian people to maintain their independence and realise their national aspirations, and anxiety that Persia would be able to solve her problems "on a basis compatible with principles which normally govern relations among those nations forming part of an interdependent world community". The Government have interpreted this statement as a sign of United States support, and the Opposition have made full play of the fact that Mr. Dulles did not visit Persia.

7. During his interview with the United States Ambassador, on May 31 (see paragraph 4), Musaddiq demanded to know whether, in the absence of an oil settlement, the United States would be willing to give Persia financial and economic assistance. Mr. Henderson replied that this would be extremely difficult in the absence of any sign of willingness on the part of the Persian Government to pay a substantial amount of compensation for oil nationalisation.

Miscellaneous

8. The Swiss Legation at Tehran, after months of efforts on our behalf, succeeded in arranging for the release from prison and expulsion from Persia of a British subject, Mr. Navarra, who was imprisoned last December on vague charges of espionage.

9. A further example of the present Persian Government's elimination of British influence was the eventual expulsion on May 26, after months of pressure, of the Anglican Bishop in Persia, Bishop W. Thompson, who had spent many years in the country.

EP 1017/5

No. 114

MONTHLY SUMMARY

Period June 1953

(Confidential)

Eastern Department,
July 13, 1953.

Internal Affairs

Musaddiq has emerged from this month's political rough and tumble with at least a temporary increase of his power and prestige. Although on June 7 the Opposition once again disrupted the Majlis deliberations on the Bill for curbing the Shah's powers (the report of the "Committee of Eight"), Musaddiq had the last word when on June 19 he staged a large public demonstration which strengthened his hand. On July 1 Musaddiq succeeded in having Muazzami, who can at the moment be counted as one of his supporters, elected as Speaker of the Majlis in place of Kashani, who has come out in increasingly open opposition to the Prime Minister. This not inconsiderable victory has for the present made it unnecessary for the Government to attack or by-pass the Majlis, and it will assist them in heading off embarrassing parliamentary moves by the Opposition.

Oil

2. There have been no new developments in the oil dispute in the period under review.

Foreign Affairs

3. The unexpected return to Tehran on June 10 of the Soviet Ambassador, M. Sadchikov, and his interview with Musaddiq next day, caused widespread speculation. There is no confirmation of repeated suggestions in the Persian press that as part of a détente in Soviet-Persian relations, M. Sadchikov offered economic aid, revision of the Soviet-Persian Treaty of 1921, the return of Soviet-held Persian gold and the settlement of minor frontier disputes. It seems likely, however, that the last was discussed.

Economic Affairs

4. On June 28, the Persian Government issued a decree fixing the export exchange rate at 100 rials to the United States dollar. It was also announced that a strict import licensing system will be introduced, for essential goods from August 23, and non-essential goods from October 23. This move is a result of the continued and increasing rise in rates of foreign exchange.

5. On June 10, before M. Sadchikov's return, an agreement was signed in Tehran between the Soviet and Persian Governments for the mutual supply of goods over the current twelve month period. According to press reports, the agreement envisages a considerable increase in trade between the two countries in comparison with the preceding year, and includes goods "traditional" in Soviet-Persian trade.

6. It was announced on June 14 that a Clearing Agreement totalling \$500,000 equivalent between Persia and Israel had been signed in Tehran.

7. A new Franco-Persian Trade Agreement was signed in Tehran on June 16 to replace the old agreement of April 1952.